Note to Executive Board representatives

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Definitions and acronyms

CRD  Corporate Risk Dashboard
ERM  enterprise risk management
ERMC Enterprise Risk Management Committee
ERMF Enterprise Risk Management Framework
IFAD11 Eleventh Replenishment of IFAD’s Resources
KRI  key risk indicator
RA  risk appetite
RAS Risk Appetite Statement
RCSA risk control self-assessment
RMO Office of Enterprise Risk Management
SDGs Sustainable Development Goals
Recommendation for approval

The Executive Board is requested to approve the Risk Appetite Statement (RAS) as set out in the present document. Together with the ERM Policy, the proposed RAS is designed to articulate the Fund’s approach to and management of risk, considering the environment in which IFAD operates. IFAD remains firmly committed to continuously support its developmental mission and strategic objectives while maintaining its financial stability.

I. Executive summary

1. In the execution of its strategy, IFAD has to assume the presence of risks that have the potential to erode the confidence of donors and investors, threaten the Fund's financial resources and imperil the outcome of its operations and results.

2. To safeguard the Fund’s operational and financial sustainability, and to properly manage risks, the Executive Board and Management need to determine the institution’s risk appetite for each main risk driver confronting it – i.e. how much risk IFAD is willing to take in its operations.

3. In view of the foregoing, the risk appetite statement is key to achieving an integrated approach to risk management and will provide clarity on the risks that the Fund wishes to assume, as the basis for consistent and transparent communication and a clear articulation of both attitudes towards risks and risk management.

4. IFAD’s risk appetite is expressed on a scale of low to high, representing the organization’s attitudes towards risks, the amount and type of risk it is willing to accept in pursuit of its objectives and the possible outcomes of the different approaches.

5. Naturally, it is aligned with the Fund’s risk taxonomy as articulated in the Enterprise Risk Management Policy at a granular level, ensuring that there is a direct link between the risk appetite and business activities.

6. A risk appetite has been established for each of the level 2 risk subdomains, which represent the main components of each level 1 risk domain, in order to provide a holistic overview of current risks and oversee their interactions, creating a comprehensive approach to anticipate, identify, prioritize, manage and monitor the risks impacting the organization.¹

7. The risk appetite for each of the level 2 risk subdomains is proportionate and relevant to the impact that the respective risk could potentially have on the Fund. The individual risk appetites have been determined based on an analysis performed in consultation with relevant departments and risk owners.

II. Purpose

8. IFAD’s Strategic Framework 2016-2025 highlighted that transformation of rural areas requires the effective use of substantially increased financial resources, including both public expenditure and private investments.

9. Against this backdrop, throughout the Eleventh Replenishment of IFAD’s Resources (IFAD11) and during the IFAD12 consultations, and with the support of Member States, IFAD has reiterated its commitment to: (i) doubling its impact by 2030 so as to annually raise the income of 40 million rural women and men; and (ii) increasing efficiency and sustainability to enhance value for money. For that, IFAD reaffirmed its intention to step up its efforts to achieve the Sustainable

¹ The risk appetite for each level 2 risk subdomain is included in annexes II, III, IV and V.
Development Goals (SDGs) by: consolidating its country-level programme approach; strengthening its ability to assemble finance through different instruments; increasing cofinancing, policy engagement and partnership-building; further advancing its mainstreaming themes; and making greater efforts to target extreme poverty and food insecurity.

10. This agenda appears even more ambitious if considered in the current complex international environment, including the COVID-19 pandemic, and the historically decreasing levels of official development assistance flowing from international development agencies to agricultural investment.

11. In order to double its impact by 2030, IFAD needs to find increased resources, continue ongoing reforms and take further action in IFADA12. At the same time, IFAD has to effectively manage the risks and take advantage of the opportunities generated by its evolving business model. To safeguard the Fund’s operational and financial sustainability, and to properly manage risks, the Executive Board and Management need to determine the institution’s risk appetite for each main risk driver confronting the organization – i.e. how much risk IFAD is willing to take in its operations.

12. In other words, IFAD’s risk appetite (RA) must be considered in the light of the principal risks and their impact on the Fund’s ability to meet its strategic objectives. The RA must be regarded as a key instrument in effective risk management, helping IFAD understand the boundaries of its risk capacity within a well-defined business model, governance structure and as part of the Enterprise Risk Management Framework (ERMF). The RA allows IFAD to take advantage of opportunities while reducing or mitigating threats, thus maximizing the likelihood of the Fund achieving its mission.

13. The RA is set out in IFAD’s proposed Risk Appetite Statement (RAS), which shows how effective risk management can generate efficiencies and benefits. The RAS is designed to articulate the Fund’s approach to risk-taking and its management of risk to support the Executive Board and Management in overseeing and preserving IFAD’s operational environment. It is also intended to facilitate discussion and decision-making on risk-taking, risk management and business strategy for the achievement of the Fund’s goals. IFAD’s RAS for each risk subdomain (level 2) is presented in annexes II to V.

14. Adoption of the RAS provides IFAD with a transparent management tool to support the decision-making process. It enables clear communication of IFAD’s risk profile to the main stakeholders, including credit-rating agencies, which assess the effectiveness of risk management in their surveillance processes. The RAS also permits a holistic and integrated overview of the risks IFAD is exposed to and facilitates the understanding of risk interlinkages for their comprehensive assessment, mitigation and monitoring.

15. The RAS shall be reviewed at least annually, or whenever there is a change in the risk profile of the Fund, to ensure alignment with the Enterprise Risk Management (ERM) Policy. Terms defined in the ERM Policy apply to this document.

16. A risk glossary of the main risk concepts adopted at IFAD is attached as annex VI.

17. IFAD Management appreciate the need of the Executive Board to be intentional in defining its risk appetite, and the responsibility of management to digest and socialise this throughout the organisation. RMO will present options for the structure of Executive Board engagement on risk - including on the nature and

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2 The ERMF encompasses the processes and tools, including frameworks, policies and guidelines, used to identify potential threats to IFAD; to define the appropriate strategies for eliminating or minimizing the impact of these risks; and to deploy the mechanisms to effectively monitor and evaluate the effectiveness of the risk management strategy.
scope of discussions that should take place. RMO would welcome any further suggestions on this.

### III. Objectives

18. The operationalization of IFAD’s strategic objectives requires an organization that operates effectively and efficiently in challenging and complex environments. This involves a willingness to accept diverse sets of financial, operational, delivery and strategic risks, which need to be assessed individually while also considering their possible interactions.

19. The RAS is a key component of the ERMF, aiming to provide a comprehensive description of the RA parameters guiding the activity of the Fund. It is a dynamic tool that continuously directs effective risk management, reflecting changes in strategies and facilitating concise presentation and informed review of the amount of risk the Fund is prepared to take in the pursuit of its strategic objectives.

20. This RAS supplements the ERM Policy – which governs the overall ERMF – by focusing on the main considerations in the Fund’s risk-taking and treatment.

21. The objectives of the RAS include:
   (i) Highlighting the risks the Fund is exposed to and providing a clear articulation of the Fund’s approach to risk-taking and its management;
   (ii) Allowing the evaluation of business opportunities and their alignment with the Fund’s risk capacity and appetite;
   (iii) Acting as a tool for effective communication of risk across the institution;
   (iv) Promoting an understanding of IFAD’s material risks and their impacts;
   (v) Fostering risk culture across the Fund in support of its development objectives;
   (vi) Supporting the Executive Board and Management in taking risk-informed decisions;
   (vii) Facilitating the identification, measurement, mitigation and escalation of risks outside the risk tolerance levels.

### IV. Components

22. The RAS sets the tone for risk management, by adopting language that resonates with both IFAD’s governing bodies and the various levels within the organization. It is designed to support Management in making informed and effective decisions while keeping risk exposure within acceptable and defined boundaries.

23. The RAS components are:
   (a) **Risk appetite** – the aggregate (level and type) amount of risk that an organization is willing to accept in order to meet its strategic objectives (and fulfill its mission);
   (b) **Risk capacity** – the amount of risk the Fund is able to sustain in pursuit of its objectives; and
   (c) **Risk tolerance** – the maximum acceptable level of variation the Fund is willing to accept regarding the pursuit of its objectives.

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3 IFAD’s strategic objectives defined in the Strategic Framework includes: (SO1) Increase poor rural people’s productive capacities; (SO2) Increase poor rural people’s benefits from market participation; and (SO3) Strengthen the environmental sustainability and climate resilience of poor rural people’s economic activities.
A. Risk appetite

24. Defining risk appetite means assessing all the possible risks an institution faces and is able to sustain, establishing the boundaries for their acceptance and creating the controls that these limits require.

25. IFAD’s RA is articulated across a scale from high to low, representing IFAD’s attitudes towards risks, the amount and type of risk the Fund is willing to accept in pursuit of its objectives and the potential outcomes that may derive from the different approaches. Definitions of the different levels in IFAD’s risk appetite scale are provided in table 1 below:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>High</td>
<td>A high risk appetite means the organization is willing to take risks in pursuit of its objectives, even if there is a high possibility of a deviation from expected outcomes, which can hardly be anticipated or mitigated with ad hoc controls. The organization accepts the possibility of the impact of residual risks remaining high if the potential benefits are expected to outweigh potential costs.</td>
</tr>
<tr>
<td>Substantial</td>
<td>A substantial risk appetite means the organization is willing to take risks in pursuit of its objectives even if there might be a degree of uncertainty as to expected outcomes but the potential benefits are greater than potential costs. The controls implemented to mitigate risks are expected to reduce the likelihood and/or the impact of residual risks, which can remain material, but below the inherent level.</td>
</tr>
<tr>
<td>Moderate</td>
<td>A moderate risk appetite means the organization is willing to take a cautious approach to justified risks that are outweighed by moderate expected benefits. The controls implemented to mitigate the risks are expected to reduce the likelihood and/or the impact of residual risk to a reasonable level.</td>
</tr>
<tr>
<td>Low</td>
<td>A low risk appetite means the organization is willing to take a prudent risk management approach in the pursuit of its objective and is intentionally being conservative. The controls implemented to mitigate the risks are expected to reduce the likelihood and/or the impact of residual risk to a minimum level.</td>
</tr>
</tbody>
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26. IFAD’s risk appetite aligns with the Fund’s risk taxonomy, which is organized on three levels:

- Risk domains (level 1) represent the primary categories of risk to which the Fund is exposed.
- Risk subdomains (level 2) represent the main enduring components of each level 1 risk domain.
- Risk drivers (level 3) represent the major risk drivers monitored as part of the risk management process and reported on, using established key risk indicators (KRIs).

27. IFAD’s four risk domains (level 1) are:

(a) **Strategic risk.** Risk having impact on the Fund’s ability to achieve its mission, execute its strategies and meet its objectives.

(b) **Financial risk.** The risk of financial loss resulting from the Fund’s inability to efficiently and economically manage financial resources and satisfy financial commitments.

(c) **Operational risk.** The risk resulting from inadequate or failed internal processes, people and systems, or from external events that may result in financial loss or damage to the Fund’s reputation.

(d) **Programme delivery risk.** Risk to the ability to achieve the expected results in Fund-supported projects, programmes or strategies, and the risk of unintended consequences.

28. Legal and reputational risks are **cross-cutting.** Prevalent throughout Fund business operations, they are embedded across the four risk domains. While there are clear roles and responsibilities associated with the management of these risks, their overarching nature requires them to be actively considered by IFAD’s
workforce across each of the established risk domains. Legal and reputational risks are defined as follows:

(a) **Legal risk.** Any risk arising from IFAD’s operations and activities that the Office of the General Counsel considers to fall under its expertise and jurisdiction.

(b) **Reputational risk** can call into question the Fund’s character or credibility, creating a gap between the Fund’s performance or behaviour and the expectations/perceptions of stakeholders.

29. IFAD’s risk appetite is set at the level 2 risk subdomains to provide a holistic overview of the risks the Fund is facing and to oversee the interaction of the above-mentioned risks to create a comprehensive approach to anticipate, identify, prioritize, manage and monitor the risks impacting the organization. The RAS for each risk subdomain (level 2) is reported in annexes II to V.

**B. Risk capacity**

30. Risk capacity refers to whether the Fund can financially and operationally afford to take a certain amount of risk at a particular point in time. It is therefore determined by IFAD’s development mandate and fiduciary duties, and considers the Fund’s size, its financial resources and the alignment with IFAD’s replenishment commitments.

31. IFAD strives to maximize its resources to deliver its mandate. To that end, Management constantly assesses IFAD’s capacity to extend loans with respect to its liquidity and capitalization; granting capacity is also regularly measured depending on levels of contributions per cycle. The assessment of the risk capacity of the Fund is crucial as the institution is limited in generating internal capital and therefore must avoid any capital erosion to ensure its financial sustainability in the short and long term.

**C. Risk tolerance**

32. IFAD recognizes that there may be variations in the Fund’s actual risk exposure relative to its identified RA. For this reason, the Fund, wherever possible and depending on the type of risk, sets risk tolerances that are associated with the measured risk drivers.

33. Situations may arise in which a risk exposure, as monitored by identified metrics and KRIs, abruptly breaches the established risk tolerance threshold or poses an emergent threat to the Fund’s operations. In such cases, the issue is immediately escalated as detailed in section VII.

34. If a risk tolerance is breached, Management and the Executive Board must consider the appropriate response in view of the risk’s potential impact on Fund operations, including, but not limited to:

   (a) Identifying the root causes of the trend;

   (b) Strengthening mitigation controls or other mechanisms; or

   (c) Determining, after rigorous analysis and expert management judgement, whether the Fund has the capacity to absorb that specific risk, and deciding to review the risk tolerance to align the Fund’s target and available resources to the institution’s risk capacity.
V. Implementation

35. Risk and control processes should be structured in accordance with the three lines of defence\(^4\) model and there should be proper coordination among the separate lines of defence to foster efficiency and effectiveness of the control framework.

36. The Fund’s overall framework for identification and management of risks is underpinned by:

(a) Shared responsibility by all IFAD’s workforce at operational level to identify and manage the risks they incur in the course of fulfilling their responsibilities (first line of defence). This includes documenting processes; establishing and maintaining risk control self-assessments (RCSAs) and KRIs for the identification of inherent risks and the controls established to reduce the impact and likelihood at residual level; and systematically reporting any incidents/losses.

(b) Independent, empowered second line of defence functions that oversee the adequacy and efficiency of the controls implemented by the first line of defence. Independent reports are made to Senior Management on aggregate levels of risk across IFAD and on any deviation to the RA through the Corporate Risk Dashboard (CRD). Oversight of the RA is managed by the team responsible at the Office of Enterprise Risk Management (RMO).

(c) The Office of Audit and Oversight examining the adequacy of controls to mitigate risks, assessing ex post compliance matters and providing assurance to Management and the Executive Board in relation to the quality and effectiveness of RA implementation.

37. The three lines of defence’s role in the development, maintenance and monitoring of the RA is illustrated in figure 1.

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\(^4\) The three lines of defence model is set out in section III, part A of IFAD’s Enterprise Risk Management Policy (EB 2021/133/R.7).
VI. Reporting

38. IFAD maintains an organization-wide Corporate Risk Dashboard, which contains: financial and non-financial risk data collected by Management; intelligence on key themes, risk exposures and risk trends; and an overview of progress towards the Fund’s strategic objectives.

39. The CRD includes a summary of key risk exposures across each risk domain and the associated metrics and KRIs identified as major risk drivers (level 3) for ongoing oversight. The metrics reported in the CRD represent the Fund’s “top risks,” to be reported on a quarterly basis to the relevant technical committees or whenever deemed necessary by RMO. The aggregate results of the CRD are discussed by the Enterprise Risk Management Committee (ERMC) and are reported to the Audit Committee and the Executive Board.

40. Any breach of IFAD’s RA reflected in the CRD or assessed by RMO in the context of its risk oversight has to be communicated to the ERMC and eventually escalated.

VII. Key roles and responsibilities

41. The Executive Board: (i) establishes and approves the RA and holds the Chief Risk Officer accountable for the integrity of the RAS, including the timely identification, management and escalation of breaches in risk limits and of material risk exposures; and (ii) is responsible for integrating RA assessment in strategic discussions and decisions, including on changes to IFAD’s strategy and/or business model.

42. The Audit Committee is responsible for the review of the risks faced by the Fund annually or at any time there is a change in the risk profile of the Fund. It also provides independent assurance to the Executive Board on the quality and effectiveness of RA implementation.

43. The President, assisted by the Vice-President, is accountable to the Executive Board for the integrity of the RAS. The President must ensure that risk exposure remains within the boundaries of risk appetite and tolerance, and communicate IFAD’s RA.

44. The Vice-President chairs the ERMC and reviews and monitors IFAD’s material risks as well as emerging material risks, as escalated by the risk technical committees.

45. The Associate Vice-President and Chief Risk Officer maintains and updates the RA; enables clear reporting in the context of strategic objectives of IFAD’s aggregate risk profile against the RA approved by the Executive Board; and facilitates the escalation of all material issues and any breaches of the RA from the ERMC to the President. The Chief Risk Officer is also responsible for periodic reviews of the RAS, as mentioned in paragraph 15 of section II above.

46. The Associate Vice-Presidents, as risk owners, are tasked with supporting the development of the RA and risk tolerance levels. They conduct periodic reviews of their departments’ performance against the Executive Board-approved RA levels and tolerance, and take any necessary action when those levels are breached.

47. Division directors lead the implementation of risk management activities and take associated risk decisions in their areas of expertise, including identifying risks and applying mitigation measures to reduce risk levels in line with Executive Board-approved risk appetite levels and tolerances.

48. The technical risk committees oversee the effective implementation and review of the Fund’s risk management frameworks and policies per risk domain.
VIII. Escalation

49. Risk owners are responsible for escalating any breach of the RA to the RMO and the relevant technical committees.

50. The technical risk committees are responsible for escalating all material issues relating to the risks they oversee, including RA breaches, to the ERMC in a timely manner.

51. The ERMC exercises its authority to oversee the management of financial, operational, programme delivery and strategic risks, and to perform RA monitoring for each of the level 1 risks. The ERMC is responsible for endorsing all risk-related policies, frameworks and similar instruments requiring Executive Board approval, and escalating all material risks to the Executive Management Committee, Audit Committee and Executive Board as needed.

IX. Risk culture and communication

52. The Executive Board and Management are tasked with fostering and supporting an effective risk culture that promotes the understanding and adoption of RA across the Fund. A strong risk culture reinforces the importance of IFAD’s risk management framework and promotes collaboration and transparency among the three lines of defence.

53. IFAD’s RAS must be communicated across the entire organization and at all levels to ensure that all IFAD managers and employees act with risk management awareness, and to provide clarity to those tasked with oversight and monitoring whether risks are being managed within the approved RA.
Risk Appetite Statement overarching approach

1. In the execution of its strategy, IFAD has to assume the presence of risks, and that some of those can damage donors’ and investors’ confidence, threaten the Fund’s financial resources and imperil the outcome of its operations and results.

2. In pursuing the Fund’s strategic objectives, the Executive Board and Management agree that IFAD’s mission must continue to provide financing primarily for projects and programmes specifically designed to introduce, expand or improve food production systems. In so doing, it should strengthen related policies and institutions in the framework of national priorities and strategies, taking into consideration: the need to increase food production in the poorest food-deficit countries; the potential for enhancing food production in other developing countries; and the importance of improving the nutritional level and living conditions of the poorest populations in developing countries, all in close alignment with the SDGs. Reaching out to low-income and fragile countries to maximize development impact remains a priority.

3. The overall prudent approach that IFAD is taking in managing risks takes into consideration the diverse environments in which IFAD operates, which require a balance between the attention to the credit rating IFAD wishes to preserve and the inherent risks existing in specific operational settings. IFAD will deploy resources in accordance with its status as a specialized agency of the United Nations and optimize the mix of resources so as to reach the broadest range of beneficiaries while maintaining its financial equilibrium. At the same time, IFAD will ensure confidence from investors is preserved at all times through a prudent approach to risk management and the use of borrowed resources. Preservation of IFAD’s credit rating is of critical importance to maintaining a solid and predictable financial outlook, deploying operations, and maintaining the Fund’s long-term financial sustainability.

4. IFAD is exposed to several risks such as strategic, operational, financial and programme delivery risks. It is also exposed to reputational and legal risks. IFAD’s risk appetite is set at subdomain level 2 to provide a holistic overview of the risks the Fund is facing and to track the interaction of those risks in order to anticipate, identify and manage the overall risks facing the organization.

5. IFAD’s RAS is designed according to a specific approach to, and management of, risk. This approach is detailed for each risk subdomain in annexes II to V. The management of risk at strategic, financial, operational and programme delivery level needs to follow an integrated approach to ensure harmonization of controls and a standardized approach to monitoring activities.

6. Risk owners are expected to:

   (i) Comply with established applicable policies, procedures, frameworks, guidelines and similar instruments;

   (ii) Establish and maintain process documentation that should include a description of the activity, flow chart(s), information technology (IT) system(s) employed, and the control(s) implemented to ensure operational efficiency;

   (iii) Report and escalate any incidents/losses to RMO and to relevant technical committees as per the ERMF;

   (iv) Maintain the RCSA for the identification of inherent risks, the controls used to mitigate them and the evaluation of residual risks;

   (v) Identify emerging risks and the controls to mitigate them. Those risks then need to be inserted and assessed in the RCSA;

   (vi) Maintain KRIs to facilitate the monitoring and control of exposure to level 3 risk drivers identified for each risk subdomain.
## Strategic risk appetite – level 2 risk

<table>
<thead>
<tr>
<th>Strategic risk subdomains – level 2</th>
<th>Risk appetite</th>
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</thead>
<tbody>
<tr>
<td>1 Strategy and objective-setting</td>
<td>Low</td>
</tr>
<tr>
<td>2 Sustainability and adaptability</td>
<td>Moderate</td>
</tr>
<tr>
<td>3 Strategy execution</td>
<td>Moderate</td>
</tr>
<tr>
<td>4 Governance and culture</td>
<td>Low</td>
</tr>
<tr>
<td>5 Strategic partner relationship</td>
<td>Moderate</td>
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</tbody>
</table>

### Strategic risk (level 1)

#### 1. Strategy and objective-setting (level 2)

**Overall risk appetite:** Low

**Risk definition**
Strategy and objective-setting refers to the risk of there being no clear set of institutional priorities, cross-cutting objectives and activities to achieve desired development impact in alignment with the Fund’s mission and vision, with potentially negative consequences on IFAD’s position in the agricultural development landscape. IFAD has a low risk appetite for strategy and objective-setting risk.

**Approach to risk**
IFAD understands that clear institutional priorities and objectives are fundamental to the effective execution of its mandate and the achievement of desired development impact. Although growth underpins IFAD’s vision, this is commensurate with the Fund’s mandate, size and focus on poor rural people.

IFAD invests considerable time and resources in strategic planning to align near-term efforts with a prioritized set of objectives, bearing in mind the Fund’s long-term vision and mission of benefiting the rural poor in developing countries.

To achieve the Fund’s strategic objectives and remain true to its vision, IFAD supports and prioritizes funding to interventions that proactively address the four thematic areas of climate, gender, nutrition and youth. IFAD leverages its position as a global leader in these areas to mobilize resources to fund implementation, reach the rural poor, and achieve desirable development impact.

#### 2. Sustainability and adaptability (level 2)

**Overall risk appetite:** Moderate

**Risk definition**
Sustainability and adaptability refers to the risk that IFAD is not alert to key external developments and/or is not sufficiently responsive to events and trends that affect the sustainability of the Fund’s business model and key activities, making it impossible to meet the Fund’s strategic objectives.

**Approach to risk**
IFAD recognizes that it operates in a diverse, complex and rapidly changing operational environment that requires constant innovation and responsiveness if the Fund is to maintain its strong competitive position and meet its strategic objectives. IFAD seeks to enhance its role in the global aid architecture by continuing to evolve from a predominantly project-focused organization to one that offers countries a comprehensive and tailored approach to eradicating food insecurity and rural poverty. In order to meet these objectives, the Fund maintains a strong funding position and relevance through robust financial sustainability and active engagement with Member States and other strategic partners. The Fund aims to ensure that innovation is mainstreamed in IFAD processes and that it continues to be more agile, responsive and innovative in meeting development objectives.
### Strategic risk (level 1)

#### 3. Strategy execution (level 2)

**Overall risk appetite:** Moderate

**Risk definition**  
The risk in strategy execution is that IFAD is ineffective in allocating and deploying resources and implementation support across the portfolio of corporate initiatives and programmes/projects, resulting in the inability to consistently execute the Fund’s strategy and meet its strategic objectives.

**Approach to risk**  
IFAD understands that aligning financial and human resources with its strategic priorities is critical to the successful execution of its strategic plans. Through robust performance management processes and systems, and effective talent management, the Fund aims to deploy resources and implementation support across the portfolio of internal corporate initiatives and programmes/projects in a manner consistent with its current strategy. To guide decision-making and business planning, the Fund continually measures its performance through both qualitative and quantitative impact evaluations, and is committed to adjusting its execution approach according to impact assessment results. IFAD’s quality assurance processes seek to ensure the overall quality and developmental impact of Fund activities.

### Strategic risk (level 1)

#### 4. Governance and culture (level 2)

**Overall risk appetite:** Low

**Risk definition**  
In governance and culture, the risk is that IFAD’s institutional and management culture – including leadership roles and responsibilities across the organization and between the governing bodies and Management – and the quality of the working environment, are not conducive to achieving the Fund’s strategy and mission.

**Approach to risk**  
IFAD expects its workforce to be motivated by the highest ethical standards. IFAD’s workforce must observe and comply with the obligations of the Human Resources Policy. IFAD is also committed to providing a safe and respectful environment free from all forms of harassment, abuse of authority, retaliation, discrimination and exploitation. The Fund requires all staff and/or individuals holding a service contract to adhere to its Code of Conduct. Additionally, the Fund’s staff rules are intended to create and maintain a trust-based, inclusive organizational culture that encourages ethical conduct, consistent with Fund polices, and that address allegations of unsatisfactory behaviour and misconduct. The Fund has zero risk tolerance for this level 2 risk subdomain (see also operational risk domain).

### Strategic risk (level 1)

#### 5. Strategic partner relationship (level 2)

**Overall risk appetite:** Moderate

**Risk definition**  
In strategic partner relationships, the risk is that partnerships and collaborative relationships, such as with the private sector and other partners, are not sufficiently engaged to help mobilize resources or contribute to IFAD’s programme delivery management. This can result in funding gaps, reputational impact and the inability to meet the Fund’s strategic objectives.

**Approach to risk**  
IFAD understands that its partnerships and collaborative relationships are critical to enabling the Fund to achieve greater outreach and expanded impact. IFAD works with an array of private (and public) contributors and partners, including private sector players, civil society organizations, NGOs and foundations. Through its strategic framework and systematic approach to private sector and partnership engagement, the Fund seeks to ensure partners are appropriately driven to engage in resource mobilization and that there is sufficient support and funding to meet strategic objectives. The Fund proactively manages perception and reputational risks so that partnerships remain a matter of choice.
Financial risk appetite – level 2 risk

<table>
<thead>
<tr>
<th>Financial risk subdomains - level 2</th>
<th>Risk appetite</th>
</tr>
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<tbody>
<tr>
<td>1 Credit risk</td>
<td>Moderate</td>
</tr>
<tr>
<td>2 Liquidity and funding</td>
<td>Low</td>
</tr>
<tr>
<td>3 Leverage and capitalization</td>
<td>Low</td>
</tr>
</tbody>
</table>

Financial risk (level 1)

1. Credit risk (level 2)

Overall risk appetite: Moderate

Risk definition
Credit risk refers to the risk of loss of the loan principal or loss of financial reward stemming from a borrower or counterparty’s failure to repay a loan or otherwise meet a contractual financial obligation.

Approach to risk
IFAD has a moderate appetite for credit risk within the loan portfolio and a low appetite for credit risk within the investment portfolio.

In its loan portfolio and by nature of its mandate, IFAD lends mainly to low- and middle-income countries. IFAD recognizes that although the Fund enjoys preferred creditor status, credit-related losses, through borrower default or change in creditworthiness, may occur in development operations as a cost of doing business.

The Fund monitors internal credit ratings, sets concentration limits and other instruments to assess, measure and manage credit exposures to countries, obligors and issuers. Furthermore, the cost of IFAD’s lending is captured by the expected credit losses according to International Financial Reporting Standard 9.

In its Treasury portfolio, the Fund bears credit risk in the form of deposit placements and bond and notes investments, as well as its off-balance sheet transactions such as derivatives counterparties.

Within the Treasury portfolio, IFAD has established minimum credit ratings and exposure limits governing the investment of capital for value preservation until allocated for use in specific Fund development operations.

Financial risk (level 1)

2. Liquidity and funding (level 2)

Overall risk appetite: Low

Risk definition
Liquidity and funding refers to the risk of loss resulting from an inability to meet cash flow needs in a timely manner.

Approach to risk
In support of development objectives, IFAD seeks to maintain sufficient liquidity to preserve the institution’s commitment capacity and meet its cash flow obligations, namely disbursement requests and the servicing of debt.

The Fund recognizes that liquidity-related losses may arise from raising funds through the sale of securities, funding at adverse prices, or the inability to raise funds through such channels.

Accordingly, the Fund sets a prudent minimum liquidity requirement for Fund resources. The Fund’s liquidity management includes monitoring tools to assess the liquidity coverage of current and projected contractual obligations, the credit quality of liquid assets, and the availability of funding.

The Fund’s principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs related to normal and predictable obligations, without having to resort to unplanned requests to Member States for additional financing.
## Financial risk (level 1)

### 3. Leverage and capitalization (level 2)

| Overall risk appetite: | Low |

### Risk definition

In leverage and capitalization, the risk is that the Fund’s capitalization or capital position is insufficient to safeguard IFAD’s ability to continue as a going concern.

### Approach to risk

The Fund primarily finances development through highly concessional loans and grants and has a limited capacity to generate internal capital. Equity is therefore IFAD’s main constrained resource and the principle of capital preservation is a key element of its financial strategy, along with ongoing capital replenishment from Members’ contributions.

The Fund acknowledges that capital depletion and/or a reduction in IFAD’s development impact may arise from constraints on the availability of new capital and/or financial resources. Accordingly, the Fund maintains capital adequacy by conducting a conservative capital planning exercise, setting exposure limits and prudential capital ratios, maintaining an adequate capital stock, and performing stress testing to monitor financial stability in various economic scenarios.

An adequate capital position allows for the continuity of IFAD’s development operations as it works to further an inclusive and sustainable rural transformation process, even in times of stress.
## Operational risk appetite – level 2 risk

<table>
<thead>
<tr>
<th>Operational risk subdomains - level 2</th>
<th>Risk appetite</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Prohibited external practices and financial integrity</td>
<td>Low</td>
</tr>
<tr>
<td>2 Unsatisfactory conduct and misconduct</td>
<td>Low</td>
</tr>
<tr>
<td>3 Talent capacity and capability</td>
<td>Moderate</td>
</tr>
<tr>
<td>4 Occupational health and safety</td>
<td>Low</td>
</tr>
<tr>
<td>5 Security</td>
<td>Low</td>
</tr>
<tr>
<td>6 Information technology and cybersecurity</td>
<td>Low</td>
</tr>
<tr>
<td>7 Business continuity</td>
<td>Moderate</td>
</tr>
<tr>
<td>8 Process execution</td>
<td>Low</td>
</tr>
<tr>
<td>9 Partnering, corporate procurement and outsourcing</td>
<td>Low</td>
</tr>
</tbody>
</table>

### Operational risk (level 1)

#### 1. Prohibited external practices and financial integrity (level 2)

**Overall risk appetite:** Low

**Risk definition**

Under prohibited external practices and financial integrity, the risk is that of unexpected financial or material loss, or legal or reputational damage due to acts committed by an external party who misappropriates assets, circumvents laws or regulations, or attempts to do so. This includes corruption, fraud, collusion, coercion, obstruction and money laundering/terrorist financing. An external party is anyone outside of IFAD’s staff definition, including individuals hired by IFAD under the provisions of the handbook on consultants and other persons under a non-staff contract, vendors, recipients and third parties.

**Approach to risk**

IFAD understands that its operating environment heightens exposure to the risk of prohibited practices, which include corruption, fraud, collusion, coercion and obstruction, by an external party. These practices, as well as the misappropriation of assets and/or circumvention of laws and regulations, are in direct contravention of IFAD’s values. IFAD is committed to zero risk tolerance at this level 2 risk subdomain.

The Fund endeavours to prevent, mitigate and combat prohibited practices and mitigate actions as deemed necessary in line with applicable policies.

#### Operational risk (level 1)

#### 2. Unsatisfactory conduct and misconduct (level 2)

**Overall risk appetite:** Low

**Risk definition**

This risk refers to potential unsatisfactory conduct or misconduct arising from any act or omission, whether deliberate or resulting from negligence, committed by an IFAD staff member or an individual hired by IFAD under the provisions of the handbook on consultants; or again by other persons hired by IFAD under a non-staff contract, in breach of the terms of their respective appointments or contracts, or any other applicable internal IFAD policy, rule or procedure – including but not limited to the Code of Conduct – which may result in reputational or actual damage to IFAD or in litigation.

**Approach to risk**

IFAD expects its staff members to be motivated by the highest ethical standards at all times. IFAD staff members or any individual hired by IFAD must observe and comply with the obligations of the Human Resources Policy, the Code of Conduct and the Staff Rules and Implementing Procedures. IFAD is also committed to providing a safe and respectful environment free from all forms of harassment, abuse of authority, retaliation, discrimination, and exploitation, and requires all staff and/or individuals holding a service contract with the Fund to adhere to its Code of Conduct. Additionally, the Fund’s staff rules are intended to create and maintain a trust-based, inclusive organizational culture that encourages ethical conduct consistent with Fund policies, and which addresses allegations of unsatisfactory behaviour and misconduct. The Fund has zero risk tolerance at this level 2 risk subdomain.
### Operational risk (level 1)

#### 3. Talent capacity and capability (level 2)

**Overall risk appetite:** Moderate

**Risk definition**
The risk concerning talent capacity and capability arises from workforce and people-management issues, including inadequate staffing resources, skills and volume of change/new initiatives, which could impact IFAD's ability to deliver on its strategic framework.

**Approach to risk**
IFAD recognizes staff as its most valuable asset and is committed to establishing a productive and creative work environment to achieve the Fund’s objectives, ensure staff well-being and encourage a respect for work-life balance. IFAD recognizes that difficulty in recruiting and retaining qualified staff can lead to skills gaps, higher turnover, excessive workload and/or misallocation of resources, all of which may jeopardize IFAD's ability to achieve its objectives. IFAD is committed to effectively manage human resources practices in line with applicable human resources policies and procedures in order to create and maintain the size and shape of the workforce needed to deliver its strategic objectives. Moreover, the Fund expects that human resources support the achievement of IFAD’s strategic framework and remain flexible in the context of the rapidly changing operational environment.

### Operational risk (level 1)

#### 4. Occupational health and safety (level 2)

**Overall risk appetite:** Low

**Risk definition**
The risk here is one of a lack of anticipation, recognition and/or control of health and safety hazards, or of standards related to the workplace, which could lead to harm (illness, injury or death) of IFAD staff and/or individuals hired by IFAD under non-staff contracts, as well as their eligible family members. The harm that may occur to the organization may include reputational damage, loss of property and loss of Member States’ confidence, among others.

**Approach to risk**
IFAD recognizes that health is associated with both the minds and bodies of people in the workplace and strives to protect and preserve its human resources from occupational diseases and accidents by constantly promoting occupational safety and health programmes.

### Operational risk (level 1)

#### 5. Security (level 2)

**Overall risk appetite:** Low

**Risk definition**
The risk here is that IFAD is unable to ensure the safety and security of personnel, assets and operations, which can lead to potential financial loss, reputational damage and/or the injury or death of personnel operating on behalf of, or in partnership with, the Fund.

**Approach to risk**
The safety and security of personnel, assets and operations are high institutional priorities for IFAD. In accordance with the United Nations Security Management System’s Framework of Accountability, IFAD maintains a robust and cohesive internal security management edifice through the provision of effective and practical secure infrastructure, support, services and advice. Given the diverse array of security environments in which the Fund operates, IFAD seeks to adopt a comprehensive security risk management approach in all settings while still maintaining consistent security and safety levels for all personnel operating on behalf of, or in partnership with, the Fund. IFAD is committed to responding in a timely and appropriate manner to any emergencies and threats that may affect its staff members, consultants and other persons hired by IFAD under a non-staff contract, and their eligible family members, as well as premises and assets. In accepting responsibility and accountability for security management, it is recognized that fatalities and/or casualties may occur, even though appropriate efforts are made and measures implemented to reduce to an acceptable level the risks to IFAD personnel, assets and operations.
### Operational risk (level 1)

#### 6. Information technology and cybersecurity (level 2)

**Overall risk appetite:** Moderate

**Risk definition**
The risk here is that threats to, and vulnerabilities, in IFAD’s IT services and systems, including a cybersecurity attack, could severely impact and compromise IFAD’s ability to function, resulting in loss of key data, business interruption and/or reputational damage.

**Approach to risk**
IFAD recognizes that information security (intended as the preservation of confidentiality, integrity and availability of information) and IT system resilience is of capital importance to its operations, administration and reputation. Through its information security management programme and resilience activities, the Fund aims to maintain business continuity and safeguard the confidentiality, integrity and availability of IFAD’s global operations. It seeks to mandate and ensure rapid recovery of resilience, especially in a decentralized context where electronically handled transactions are the norm. The Fund incorporates minimum baseline standards to help reduce the impact of a cybersecurity attack and foster credibility and trust among internal stakeholders and external partners. IFAD’s IT and cybersecurity activities ensure rapid recovery and timely resumption of prioritized business operations, maintain control over information and data, and minimize the potential for loss of key data, business interruption and/or reputational damage. Finally, IFAD expects that its security and resilience controls protect IFAD IT systems and information, and that all IFAD IT users adhere to policies, guidelines and procedures on the protection of information assets.

<table>
<thead>
<tr>
<th>Operational risk (level 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Information technology and cybersecurity (level 2)</td>
</tr>
<tr>
<td><strong>Overall risk appetite:</strong> Moderate</td>
</tr>
<tr>
<td><strong>Risk definition</strong></td>
</tr>
</tbody>
</table>
The risk here is that threats to, and vulnerabilities, in IFAD’s IT services and systems, including a cybersecurity attack, could severely impact and compromise IFAD’s ability to function, resulting in loss of key data, business interruption and/or reputational damage. |
| **Approach to risk** |
IFAD recognizes that information security (intended as the preservation of confidentiality, integrity and availability of information) and IT system resilience is of capital importance to its operations, administration and reputation. Through its information security management programme and resilience activities, the Fund aims to maintain business continuity and safeguard the confidentiality, integrity and availability of IFAD’s global operations. It seeks to mandate and ensure rapid recovery of resilience, especially in a decentralized context where electronically handled transactions are the norm. The Fund incorporates minimum baseline standards to help reduce the impact of a cybersecurity attack and foster credibility and trust among internal stakeholders and external partners. IFAD’s IT and cybersecurity activities ensure rapid recovery and timely resumption of prioritized business operations, maintain control over information and data, and minimize the potential for loss of key data, business interruption and/or reputational damage. Finally, IFAD expects that its security and resilience controls protect IFAD IT systems and information, and that all IFAD IT users adhere to policies, guidelines and procedures on the protection of information assets. |

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<table>
<thead>
<tr>
<th>Operational risk (level 1)</th>
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</thead>
<tbody>
<tr>
<td>7. Business continuity</td>
</tr>
<tr>
<td><strong>Overall risk appetite:</strong> Moderate</td>
</tr>
<tr>
<td><strong>Risk definition</strong></td>
</tr>
</tbody>
</table>
This risk threatens IFAD’s continued delivery of services at acceptable predefined levels following an event or incident resulting in the disruption of IFAD’s highest-priority activities. |
| **Approach to risk** |
IFAD establishes a sound business continuity management plan to ensure it can keep its operations going and limit losses and/or damage in the event of severe disruption. To achieve this objective, IFAD carefully analyses its exposure to severe business disruptions and assesses their potential impact, using internal and/or external data and scenarios. This analysis should contribute to defining the institution’s recovery priorities and objectives. |

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<table>
<thead>
<tr>
<th>Operational risk (level 1)</th>
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</thead>
<tbody>
<tr>
<td>8. Process execution</td>
</tr>
<tr>
<td><strong>Overall risk appetite:</strong> Low</td>
</tr>
<tr>
<td><strong>Risk definition</strong></td>
</tr>
</tbody>
</table>
Process execution refers to the risk that IFAD’s internal processes and controls are inadequate or improperly executed, resulting in business disruption, potential financial loss and/or reputational damage. |
| **Approach to risk** |
IFAD recognizes the importance of implementing effective and efficient controls that address operational and other non-financial risks. By implementing the Internal Control Framework, IFAD has established institutional standards and accountability for operating its internal control system. IFAD requires that processes are documented, controlled and challenged to ensure the adequacy and the efficiency of its operations. |
### Operational risk (level 1)

#### 9. Partnering, corporate procurement and outsourcing (level 2)

| Overall risk appetite: | Low |

**Risk definition**
Partnering, corporate procurement and outsourcing refers to the risk that key vendors, contractors (including outsourced core service providers) and partners (including financial intermediaries, private sector partners and NGOs) fail to provide services, goods or works requested by the Fund, which may result in business disruption or have adverse reputational and/or financial impact on IFAD.

**Approach to risk**
IFAD expects key vendors, contractors (including outsourced core service providers) and partners (including financial intermediaries, private sector partners and NGOs) always to be motivated by the highest ethical standards and to comply with the general terms and conditions of procurement guidelines. IFAD follows strict procedure in the selection of vendors. The selection process includes the evaluation of technical and financial capacities and measures.
Programme delivery risk appetite – level 2 risk

<table>
<thead>
<tr>
<th>Programme delivery risk subdomains – level 2</th>
<th>Risk appetite</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Country context</td>
<td>Substantial</td>
</tr>
<tr>
<td>2 Sector strategies and policies</td>
<td>Moderate</td>
</tr>
<tr>
<td>3 Environment and climate context</td>
<td>Substantial</td>
</tr>
<tr>
<td>4 Project scope</td>
<td>Moderate</td>
</tr>
<tr>
<td>5 Institutional capacity for implementation and sustainability</td>
<td>Substantial</td>
</tr>
<tr>
<td>6 Project financial management</td>
<td>Moderate</td>
</tr>
<tr>
<td>7 Project procurement</td>
<td>Moderate</td>
</tr>
<tr>
<td>8 Environmental, social and climate impact</td>
<td>Moderate</td>
</tr>
<tr>
<td>9 Stakeholders</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Programme delivery risk (level 1)

1. Country risk (level 2)

Overall risk appetite: Substantial

Risk definition
The risk here is that the achievement of project development objectives is compromised by the country context. It includes risks related to a country’s political commitment, governance context and macroeconomic environment, as well as the country’s level of fragility and security.

Approach to risk
IFAD recognizes that risk exposure is heightened in country contexts characterized by uncertainty, instability, non-transparency and/or insecurity. IFAD also acknowledges that risks associated with country context are broad in nature and that full mitigation of such risks may not be feasible or within the Fund’s control. Accordingly, IFAD seeks to account for the potential implications of these risks in its funded initiatives through the effective design of country-level strategies and programmes that leverage the Fund’s experience within the given context.

Programme delivery risk (level 1)

2. Sector strategies and policies (level 2)

Overall risk appetite: Moderate

Risk definition
Sector strategies and policies refers to the risk to project development objective(s) stemming from a country’s strategies and polices governing the rural and agricultural sector, the related anti-poverty approach and its sustainability, and alignment with IFAD’s priorities, as well as their actual development and implementation.

Approach to risk
IFAD acknowledges the risks deriving from a country’s sector strategies and policies to the delivery of its development objectives and recognizes that consistent country-level support and resources for rural anti-poverty policies and initiatives are critical in achieving sustainable programme or project objectives. The Fund understands that an explicit policy framework for rural development is an important factor in driving institutional performance and the achievement of objectives at country level, taking into account potential risks. IFAD deploys resources to Member States accordingly, providing development support through various interventions tailored to the specific needs and capacities of borrowers/recipients and aligned with IFAD’s objectives and priorities.
### Programme delivery risk (level 1)

#### 3. Environment and climate context (level 2)

<table>
<thead>
<tr>
<th>Overall risk appetite:</th>
<th>Substantial</th>
</tr>
</thead>
</table>

**Risk definition**
Environment and climate context refers to the risk that existing or possible future environmental or climate conditions, or related extreme events, may significantly undermine project implementation and the achievement of project objectives. Specifically, it refers to project vulnerability to both environmental conditions and climate change impacts.

**Approach to risk**
The Fund is committed to maximizing its impact on rural poverty in a changing environment. It seeks to identify and proactively adapt to the risk of negative climatic impacts on its programmes and/or projects. IFAD recognizes that development operations targeted on the rural poor and agricultural development are often carried out in areas that are particularly vulnerable to environment and climate risks. Accordingly, the Fund works to implement mitigation and adaptation measures, but is willing to enter situations in which residual risk remains at a significant level. The Fund is committed to improving the resilience of development investments to climate-related hazards and increasing the robustness of development outcomes by carrying out climate risk analyses of its projects and programmes. The Fund supports borrowers/recipients in adapting to environmental and climatic vulnerabilities, and places a significant focus on associated projects and programmes designed to reduce the above risks.

### Programme delivery risk (level 1)

#### 4. Project scope (level 2)

<table>
<thead>
<tr>
<th>Overall risk appetite:</th>
<th>Moderate</th>
</tr>
</thead>
</table>

**Risk definition**
The risk here stems from factors related to the scope of the project. They include risks related to weak project relevance as well as inadequate technical soundness.

**Approach to risk**
IFAD acknowledges the risks related to inappropriate project design and recognizes that a well-designed project or programme is closely tied to the successful implementation and sustainability of its intended benefits. The Fund invests considerable time and resources in developing programmes and projects that are technically sound and relevant to both IFAD’s development priorities and the needs and priorities of the groups targeted. However, the Fund acknowledges that, despite collaboration with relevant stakeholders and fit-for-purpose project objectives, certain circumstances may give rise to a heightened risk of mission drift. In such often rapidly changing contexts, the Fund seeks to build flexibility into programme and project design to allow for periodic realignment in the pursuit of development objectives.
### Programme delivery risk (level 1)

#### 5. Institutional capacity for implementation and sustainability (level 2)

**Overall risk appetite:** **Substantial**

**Risk definition**

Institutional capacity for implementation and sustainability refers to the risk that the project executing agency, implementing partners and service providers lack the capacity to effectively and efficiently implement and sustain the activities supported by the project. These risks relate to project implementation arrangements as well as monitoring and evaluation.

**Approach to risk**

The Fund acknowledges the risk deriving from a limited presence of supporting governance structures and weak institutional arrangements in its projects and programmes. In its risk approach, IFAD seeks to enable capacity-building and empowerment in funded operations and supports the strengthening of the capacities of national and local governments, implementing agencies, and rural people’s organizations. Although IFAD may work in difficult environments with limited choice of implementing partners, the Fund seeks to design programmes and projects that support the unique institutional capacities of given borrowers/recipient and is flexible in contexts where increased capacity-building efforts may be needed. In addition, through its regular grant programme, the Fund may use grant financing to mitigate certain risks through capacity-building of in-country stakeholders for improved portfolio delivery, including monitoring and evaluation and other implementation arrangements. Finally, through IFAD’s enhanced decentralization model, the Fund seeks to strengthen capacity-building in the field to improve risk mitigation and for greater impact.

### Programme delivery risk (level 1)

#### 6. Project financial management (level 2)

**Overall risk appetite:** **Moderate**

**Risk definition**

Project financial management refers to the risk that project activities are not carried out in accordance with the provisions of IFAD’s financial regulations and that funding is not used for intended purposes or with due regard for economy, efficiency and effectiveness.

**Approach to risk**

IFAD acknowledges the risks related to inadequate project financial management and recognizes that appropriate supervision of project financial management risk is closely correlated with the economic benefits and long-term sustainability of results in funded programmes/projects. Borrowers/recipient have the primary responsibility to provide assurance that programme/project funds are used for intended purposes, with due consideration for economy, efficiency and social equity. The Fund works with borrowers/recipient to enhance this assurance, using a risk-based approach to financial management, including disbursement arrangements that consider their institutional, financial and governance capacities. Also, IFAD will act to address weaknesses in the control environment that could give rise to practices prohibited by IFAD’s anti-corruption policy. Moreover, IFAD is committed to zero risk tolerance towards prohibited practices in project financial management, as outlined in IFAD policies and in the level 2 risk subdomain, “prohibited external practices and financial integrity”. The Fund has a low appetite for ineligible expenditures as well as late or unsatisfactory submission of external audits and reporting.

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### Programme delivery risk (level 1)

**7. Project procurement** (level 2)

**Overall risk appetite:** Moderate

**Risk definition**

Project procurement refers to the risk that project procurement activities, including the procurement of goods, works and services financed from IFAD resources, are not carried out in accordance with the provisions of the borrower/recipient’s procurement regulations, to the extent that they are consistent with the IFAD procurement guidelines.

**Approach to risk**

IFAD understands that procurement risk is closely tied to the successful implementation and long-term sustainability of results in its funded programmes/projects. The Fund works with borrowers and recipients to build strong public procurement practices in funded operations – procedures that promote accountability and transparency in achieving sustainable results. The Fund uses a principles-based approach to procurement and considers the capacity constraints and/or operating challenges of each borrower or grant recipient. The Fund also recognizes that in certain contexts, heightened risks are more likely to materialize due to lower institutional capacity and weak governance systems. The Fund, however, applies zero tolerance towards prohibited practices as stated in IFAD policies.⁶

### Programme delivery risk (level 1)

**8. Environmental, social and climate impact** (level 2)

**Overall risk appetite:** Moderate

**Risk definition**

Environmental, social and climate impact refers to the risk that the project may cause significant environmental or social harm, or increased vulnerability to climate change events of a temporary, cumulative, irreversible or unprecedented nature affecting the immediate project target area or beyond.

**Approach to risk**

IFAD understands that appropriate identification of environmental, social and climate risks and associated mitigation measures are critical to supporting sustainable rural development. The Fund mainstreams environmental, social and climate considerations into project life cycles and goes beyond the principle of “do no harm” to maximize development gains and minimize the risk of potential negative impacts. These include unwarranted increases in greenhouse gas emissions or other drivers of climate change, from supported activities. The Fund’s environmental, social and climate standards centre on a precautionary approach to risk management and a commitment to transparency and accountability across project life. IFAD is also committed to supporting borrowers and recipients in their efforts to reduce poverty and generate sustainable environmental, social and climate benefits.

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### Programme delivery risk (level 1)

9. **Stakeholders** (level 2)

**Overall risk appetite:** **Moderate**

<table>
<thead>
<tr>
<th>Risk definition</th>
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</thead>
<tbody>
<tr>
<td>Stakeholders refers to the risk that the project is negatively affected because relevant stakeholders are not appropriately identified, consulted or engaged during the project’s duration and/or that grievances redress processes are ineffective.</td>
</tr>
</tbody>
</table>

**Approach to risk**

IFAD understands that proper consultation and coordination with, and buy-in from, stakeholders on project objectives and delivery is closely tied to the Fund’s reputation and ability to achieve long-term results. IFAD recognizes that soliciting and using stakeholders’ feedback in fragile situations can be particularly challenging due to often weak governance systems and institutions that lack the legitimacy, capacity and ability to respond to shocks. IFAD actively seeks to ensure the inclusiveness and representation of stakeholders, especially women, youth, indigenous peoples, minorities, and marginalized and disadvantaged groups, through the design of feedback mechanisms informed by comprehensive stakeholder assessments. The Fund will attempt to identify those individuals or groups who may be affected by a programme or project, as well as groups who could influence the success of expected development outcomes. It will continue to identify and engage stakeholders over project life cycles through regular analyses, consultations, and the collection of feedback from target groups.
## Risk glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controls</td>
<td>Interventions taken to reduce risk to an acceptable level. Reducing risk means diminishing the probability and severity of an adverse event. When well designed and operating effectively, controls mitigate inherent risk.</td>
</tr>
<tr>
<td>Key risk indicators</td>
<td>They are metrics to measure the level of exposure to specific operational risks at a given point in time. They make it possible to track the evolution of the risk and the control environment. They highlight current risks, long-term trends and emerging risk exposures.</td>
</tr>
<tr>
<td>Inherent risk</td>
<td>The exposure to risk in the absence of controls or other mitigating factors.</td>
</tr>
<tr>
<td>Residual risk</td>
<td>The assessed risk after controls are put in place (impact after detective controls multiplied by probability factor after preventive controls). The amount of risk that remains after taking into consideration the controls that have been established for its mitigation.</td>
</tr>
<tr>
<td>Risk</td>
<td>Internal or external events that have the potential to impact achievement of the Fund’s overall objectives or those of an individual business unit. It is the combination of (i) the probability of an event, and (ii) its impact, both financial and non-financial.</td>
</tr>
<tr>
<td>Risk appetite</td>
<td>The aggregate (level and type) amount of risk that an organization is willing to accept in order to meet its strategic objectives (and mission).</td>
</tr>
<tr>
<td>Risk Appetite Statement</td>
<td>The articulation in written form of the aggregate level and types of risk that the Fund is willing to accept, or to avoid, in order to achieve its mission and business objectives, including the rationale for that desired level.</td>
</tr>
<tr>
<td>Risk capacity</td>
<td>The maximum level of residual risk the Fund can assume before breaching constraints such as its mandate or fiduciary duty.</td>
</tr>
<tr>
<td>Risk control self-assessment</td>
<td>The risk control register used to identify, assess and document the main risks the Fund faces, the key controls associated with those risks and the relevant actions taken to address them. The process evaluates the probability of occurrence and the likely impact of each significant risk both at inherent and residual level.</td>
</tr>
<tr>
<td>Risk exposure</td>
<td>Risk exposure is the measure of potential future loss due to a specific event, incident or business activity, calculated as the likelihood of the event multiplied by the expected loss due to the risk impact.</td>
</tr>
<tr>
<td>Risk owner</td>
<td>The individual person and/or designated unit accountable for ensuring the risk is managed appropriately.</td>
</tr>
<tr>
<td>Risk profile</td>
<td>The quantification and allocation of risk appetite across risk categories (e.g. financial risk, operational risk).</td>
</tr>
<tr>
<td>Risk taxonomy</td>
<td>A risk taxonomy is a categorization that establishes a common understanding of risks. Within a risk taxonomy, a risk domain (level 1 risk) is a primary category of risks.</td>
</tr>
<tr>
<td>• Risk domain (level 1)</td>
<td>Within a risk taxonomy, a risk domain (level 1 risk) is a primary category of risks. Within a risk taxonomy, a risk subdomain (level 2 risk) is a secondary category of risks within a risk domain.</td>
</tr>
<tr>
<td>• Risk subdomain (level 2)</td>
<td>Within a risk taxonomy, a risk subdomain (level 2 risk) is a secondary category of risks within a risk domain. Within a risk taxonomy, a risk driver (level 3) is a risk factor that could affect the level of risk within a risk subdomain.</td>
</tr>
<tr>
<td>Risk tolerance</td>
<td>The maximum acceptable level of variation the Fund is willing to accept in the pursuit of its objectives.</td>
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</table>