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IFAD's non-Sovereign Operations Investment Strategy

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Useful references: Framework for IFAD non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund (EB 2020/129/R.11/Rev.1), Enterprise Risk Management Policy (EB 2021/133/R.7), IFAD Risk Appetite Statement (EB 2021/134/R.21/Rev.1), Revisions to the Framework for IFAD non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund (EB 2024/143/R.20), Report on the status of the Thirteenth Replenishment of IFAD's Resources (IFAD13) (EB 2025/144/R.15)

Action: The Executive Board is invited to approve the IFAD non-Sovereign Operations Investment Strategy.

Technical questions:

Jenny Scharrer
Director
Private Sector Operations Division
e-mail: jenny.scharrer@ifad.org

Francisco Rubio
Senior Technical Specialist
Private Sector Operations Division
e-mail: f.rubio@ifad.org

For more information on IFAD's Private Sector Division and Private Sector Financing Programme, please visit https://www.ifad.org/en/initiatives/private-sector-financing-programme

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Executive summary

1. **The Thirteenth Replenishment of IFAD's Resources (IFAD13) marked a pivotal shift in IFAD's operating model by formally embedding non-sovereign operations (NSOs) as a core component of the institution's business**. This evolution reflects Member States' recognition that delivering large-scale inclusive and sustainable impact in rural areas requires not only public investment through sovereign channels but the direct engagement of private sector actors.

2. **IFAD's NSO Investment Strategy is one of the core deliverables of the IFAD Private Sector Operational Strategy 2025–2030** and shapes IFAD's approach to investing in private sector actors. Private sector actors must be engaged and strengthened – not only at the production level but across the entire value chain to include processors, aggregators, distributors and financial service providers. Through its NSO investments, IFAD can complement its sovereign portfolio and directly support and de-risk these players, especially those that focus on smallholders and the first mile (IFAD's target group), helping them to become more viable, investable and, eventually, capable of accessing commercial capital on their own.

3. In this context, **NSOs are not merely complementary but instrumental to achieving IFAD's long-term vision**. As emphasized in IFAD13 and the Private Sector Operational Strategy 2025–2030, mobilizing private capital and capabilities is essential for scaling rural transformation. NSOs enable IFAD to deploy fit-for-purpose financial instruments that crowd in investment, foster innovation and build markets for inclusive rural growth. They also equip IFAD with the agility to respond to shifting market dynamics, align with investor expectations and deliver tailored solutions in fragile or underserved regions.

4. **IFAD investment targets include catalytic investees (CIs)** that work directly with smallholder farmers and rural enterprises, **impact funds (IFs)** targeting those investees and **financial institutions (FIs),** such as commercial banks, microfinance institutions and financial cooperatives that provide financing to smallholder farmers. IFAD's product offering will remain diverse in response to market demand while leveraging the private sector funding model (IFAD13 commitment), which includes the use of on-balance-sheet resources for NSOs and off-balance-sheet grant resources. The strategy also emphasizes a stronger link between NSO investments and country programme priorities to ensure additionality, complementarity and portfolio quality.

5. **IFAD's unique value proposition lies in maintaining a high risk appetite and offering relatively smaller deal sizes while leveraging institutional expertise**. Through supplementary grant funds and returnable contributions, the Fund has successfully mobilized capital capable of absorbing high levels of risk – essential for operating in underserved markets and fragile contexts. Moreover, IFAD intentionally targets investment opportunities that fall below the threshold of traditional development finance institutions (DFIs). IFAD focuses on investments between US$2.5 million and US$15 million, serving agribusinesses and financial intermediaries that directly benefit smallholder farmers with financing needs that are too small or risky for mainstream DFIs. This positioning enables IFAD to fill a critical market gap while staying true to its mission and complementing existing development finance efforts in agriculture. In addition, IFAD's significant technical expertise in rural development, drawn from decades of sovereign operations, provides a distinct advantage in appraising and supporting agricultural investments.

IFAD's non-Sovereign Operations Investment Strategy

I. Introduction

A. Background

1. Globally, according to World Bank[1] estimates, around 500 million smallholder households (upwards of 2 billion people) mostly cultivate less than five acres of land and earn less than US$2 per day, representing a significant portion of the world's poor. Rural poverty, particularly in Africa, is driven mainly by persistently low farm productivity, stemming in large part from financing constraints that discourage investments in improved seeds, fertilizers, mechanization and irrigation.[2] The Global Yield Atlas[3] from Wageningen University and Research quantifies regional yield gaps for maize across Sub-Saharan Africa at as high as 50 to 60 per cent. The ISF Advisors (ISF)[4] estimates that over 70 per cent of the demand for smallholder finance goes unmet – the equivalent of US$170 billion per year.[5]

2. Bridging this financing gap is crucial, as greater investment in smallholder agriculture can lead to substantial improvements in productivity and therefore poverty reduction. The Food and Agriculture Organization of the United Nations (FAO)[6] has determined that finance-driven investments in storage, processing and market linkages significantly boost yields and incomes year-round.

3. Addressing these challenges requires tailored financial instruments, such as collateral substitutes, flexible repayment schedules, blended finance models, mobile delivery and aggregation models, to unlock the necessary investments that can sustainably raise smallholder productivity and incomes. It is those disruptive innovative models that the non-Sovereign Operations Investment Strategy is aiming to finance with deliberately concessional funding and the required risk appetite. A Dalberg study[7] on the economics and viability of lending to smallholder farmers found that only one out of seven financial service providers succeeded in breaking even without the use of subsidies or grants to lower the cost of loans to farmers, enabling them a better chance at success and scale to return a profit.

B. Lessons learned

4. Since 2019,[8] IFAD has steadily advanced its commitment to inclusive rural transformation by scaling up non-sovereign operations (NSOs).

5. Drawing on lessons learned[9] to guide its future strategic direction, the Fund is streamlining internal processes, enhancing due diligence and strengthening technical assistance to boost project quality and impact.

6. IFAD is also addressing limited internal capacity, high transaction costs and a geographically concentrated pipeline through increased technical staffing (also in the regions), a more systematic approach to origination, closer integration with

[1] World Bank. 2016. A Year in the Lives of Smallholder Farmers.
[2] FAO. 2021. The State of Food and Agriculture 2021: Making Agrifood Systems More Resilient to Shocks and Stresses. Food and Agriculture Organization of the United Nations, Rome.
[3] Wageningen. 2025. Global Yield Gap Atlas. https://www.yieldgap.org/ssa-maize?utm_source.
[4] Formerly known as Initiative for Smallholder Finance.
[5] ISF. 2019. Pathways to Prosperity.
[6] FAO Investment Centre. 2025. How farmers' access to finance boosts investment in agrifood systems.
[7] Dalberg. 2022. Towards market transparency in smallholder finances.
[8] 2019. Change in the Agreement Establishing IFAD to allow the Fund to finance private sector organizations and enterprises directly and adoption of the Private Sector Engagement Strategy 2019–2024 (EB 2019/127/R.3).
[9] Private Sector Operational Strategy 2025–2030 (annex I) and Private Sector Engagement Strategy 2019–2024 (midterm review).

country programmes and targeted training for country teams to scale impact and expand geographical coverage, including to upper-middle-income countries.

C. Institutional and strategic context

7. The NSO Investment Strategy, anchored in a robust regulatory and strategic framework established by IFAD's governing bodies and core institutional policies, is a core deliverable of the Private Sector Operational Strategy 2025–2030.

8. Central to the regulatory framework are the Report of the Consultation on the Thirteenth Replenishment of IFAD's Resources (IFAD13)[10] and its associated Results Management Framework,[11] which formally integrate non-sovereign operations into IFAD's core business model, recognizing their pivotal role in mobilizing private capital and enhancing development impact in rural areas. Complementing this, the Private Sector Operational Strategy 2025–2030 establishes the vision and modalities for engaging private sector actors. Additionally, the Framework for IFAD non-Sovereign Private Sector Operations and Establishment of a Private Sector Trust Fund[12] and the NSO funding model update[13] provide operational and risk management guidelines for appraising, approving and supervising NSOs. These documents collectively define the institutional mandate, strategic priorities and governance structures that have guided the design and implementation of the NSO Investment Strategy.

9. A key focus of IFAD's Private Sector Engagement Strategy 2019–2024 and Private Sector Operational Strategy 2025–2030 is the need to address the persistent financing gap faced by the "missing middle" – rural micro, small and medium-sized enterprises (MSMEs) that are too large for microfinance but too small or risky for commercial banks. These enterprises are critical to achieving inclusive and sustainable rural transformation, as they are vital intermediaries in agricultural value chains, linking smallholder producers with inputs, markets and services. NSOs provide IFAD with a strategic tool to directly support and de-risk these MSMEs and their financial intermediaries through tailored debt, equity and blended finance instruments. In so doing, IFAD can unlock capital flows to this underserved segment, foster entrepreneurship and drive innovation in rural food systems.

II. Funding model and financial resources

A. Funding model

10. In alignment with the commitments of IFAD13 and the Private Sector Operational Strategy 2025–2030, IFAD has introduced a revised funding model for its non-sovereign operations.[14] This model integrates both on-balance-sheet resources – comprising core contributions and borrowed funds – and off-balance-sheet supplementary funds through the Private Sector Trust Fund (PSTF) (see figure 1). This dual approach is aimed at increasing the scalability and flexibility of NSO operations, enabling the Fund to mobilize a broader spectrum of financial resources. This structure facilitates the blending of concessional and non-concessional funds, thereby strengthening IFAD's capacity to engage in impactful private sector investments that support rural development objectives.

11. The PSTF, established in IFAD12, will continue to serve as the platform for channelling supplementary resources from donors to NSO operations.

12. In this context, in IFAD13, Management has proposed a review of the governance for blending IFAD resources and supplementary funds. This review will be

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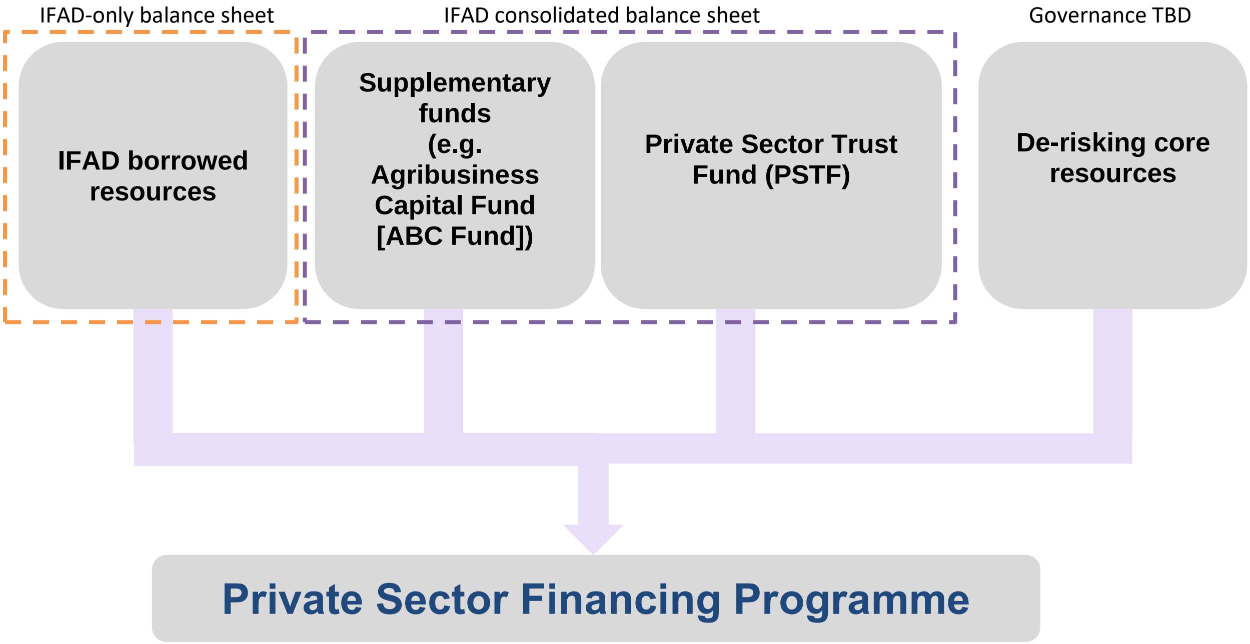
[10] GC 47/L.5.
[11] Ibid.
[12] EB 2020/129/R.11/Rev.1.
[13] EB 2024/143/R.20.
[14] Ibid.

conducted utilizing best practices of multilateral development banks to determine whether additional governance measures are warranted in this regard.

13. IFAD is exploring the use of core grant resources totalling US$18 million for de-risking investments. The governance around the use of these resources will be developed and implemented in 2025.

Figure 1
Funding sources: Overview of on-balance sheet and within the PSTF



B. Resource mobilization

14. IFAD's unique value proposition is defined by its ability to operate with a higher risk appetite and provide smaller average ticket sizes tailored to the needs of underserved markets. It focuses on low-income countries (LICs), lower-middle-income countries and fragile contexts, while offering concessional financing backed by strong institutional expertise, enabling it to reach markets and clients typically underserved by traditional development finance institutions (DFIs) – the missing middle. To preserve these core strengths and continue delivering impact in the most challenging environments, sustained access to off-balance-sheet supplementary funding remains essential.

15. To this end, the PSTF, established in 2020, will continue to serve as the dedicated mechanism for mobilizing concessional funding from donors.[15] These resources will be critical to unlocking private sector investments that carry substantial risks and achieve high impact.

16. IFAD's approach to risk management is articulated in its Risk Appetite Statement, which is designed to preserve the institution's credit rating. In a scenario in which core replenishment resources constitute most of the funding, this constrains IFAD's ability to operate in many LICs and fragile settings with on-balance-sheet resources and restricts the use of instruments such as equity or first-loss positions in funds. Consequently, these investments typically require supplementary funding with a higher risk appetite or credit enhancements (e.g. through the US$18 million provided from IFAD core grant resources for de-risking). The availability of these higher risk appetite funding resources is vital for IFAD to maintain its unique value

[15] EB 2020/129/R.11/Rev.1.

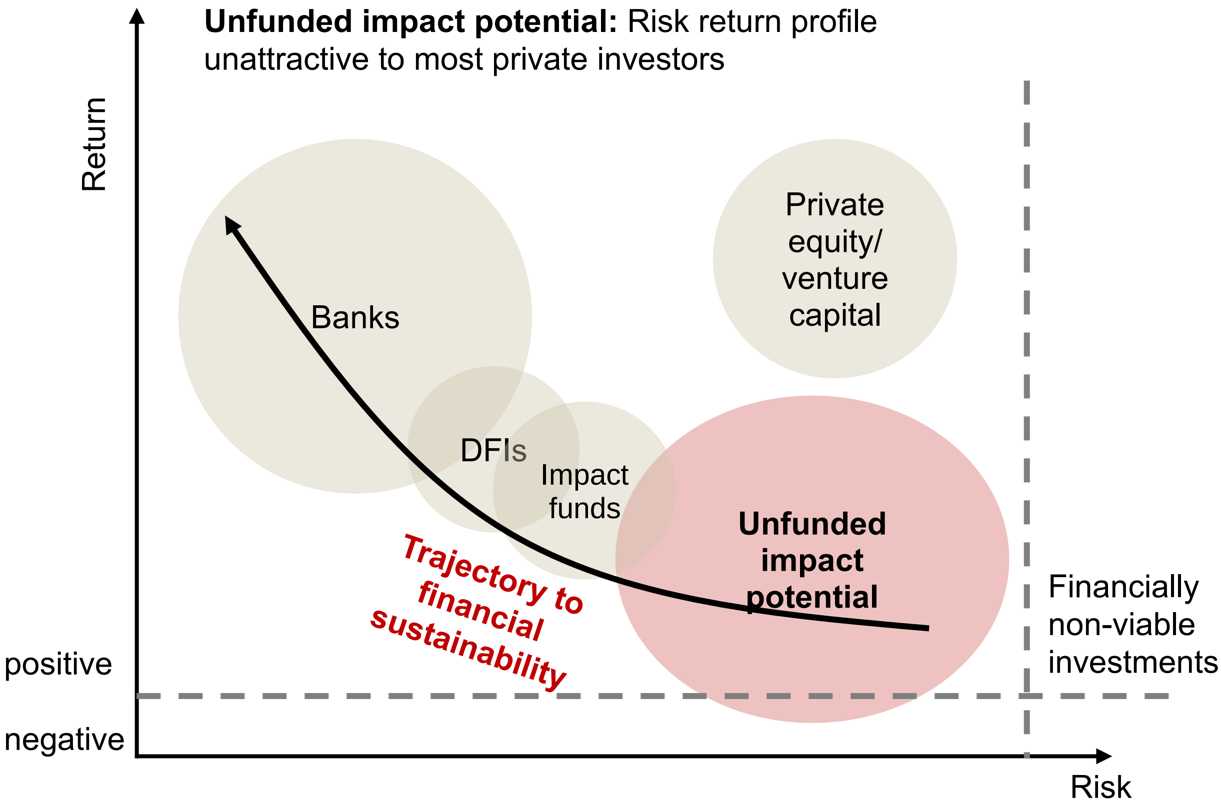
proposition as a catalytic investor in rural high-risk markets and distinguish itself from existing DFIs.

III. Investment strategy

A. Investment objective

17. **NSOs will focus on financing the unfunded impact potential** (figure 2), a segment marked by high-impact, higher-risk ventures that typically offer only moderate-to-low financial returns but fall within IFAD's mandate. These opportunities are chronically underfunded, as risk-adjusted return expectations often exceed the financial capacity of targeted investees. By deploying catalytic finance (directly or indirectly via blended-finance structures), IFAD bridges the financing gap for agricultural SMEs and financial intermediaries that directly benefit smallholder farmers. It enables investees to scale, build credible financial track records and ultimately attract commercial funding in their respective local markets.

Figure 2
Unfunded impact potential



B. Theory of change

18. As per the **investment objective,** IFAD will prioritize funding for ventures within the "unfunded impact potential," space so that investees can build financial sustainability and access commercial markets (see previous section for further details).

19. To reach this objective, IFAD will provide risk-tolerant capital, such as loans, subordinated debt and equity (including first-loss positions), delivered through financial intermediaries, catalytic investments and impact funds, alongside complementary technical assistance (**input**). As a result, tailored financing will be made available to targeted agribusinesses and smallholders while strengthening public-private linkages (**output**). These outputs will lead to farmers achieving higher yields and incomes and rural employment opportunities (**outcome**). This in

turn will contribute to reduced rural poverty, enhanced resilience of communities to climate shocks and improved food and nutrition security for vulnerable populations (**impact**).

IV. Types of investments

A. Definition of NSO

20. Under sovereign operations (SOs), IFAD provides concessional loans and grants to governments to support national rural development priorities, typically through long-term programmes focused on agriculture, financial inclusion, climate adaptation and food-system resilience. These operations often engage the private sector indirectly by supporting farmer-producer organizations, facilitating public-private partnerships, improving the business environment or cofinancing value-chain initiatives. However, the contractual and financial relationships are generally between IFAD and the government. In contrast, non-sovereign operations (NSOs), as outlined in the Private Sector Operational Strategy 2025–2030*,* the Framework for IFAD non-Sovereign Private Sector Operations and Establishment of a PSTF and the IFAD13 Consultation Report, involve **direct financing** to private sector actors such as agri-SMEs, social enterprises, financial intermediaries and impact funds. **The contractual and financial relationship in NSO transactions is therefore between IFAD and the private sector entities.**

21. Private sector recipients are defined in the Private Sector Operational Strategy 2025–2030[16] and the Framework for IFAD non-Sovereign Private Sector Operations and Establishment of a PSTF.

B. NSO investment approach

22. **"Smallholder farmers first," complementarity and additionality.** IFAD's NSO approach is centred on empowering smallholder farmers by investing in private sector actors. All investments under the NSO Framework will be assessed against clear impact selection criteria, along with financial and risk parameters, to ensure alignment with IFAD's mandate and strategic objectives. In line with the principle of "smallholder farmers first," investments must demonstrate a strong and measurable development impact, particularly in terms of increased incomes, resilience and market access among small-scale producers, thereby fostering inclusive rural development. Proposals will also be evaluated for their complementarity with IFAD's SOs and country strategies, ensuring synergies across public and private sector interventions. Finally, all investments must meet the test of additionality[17] by addressing financing gaps, mobilizing private capital or introducing innovations that would not occur without IFAD's participation. These criteria serve as the foundation for a high-impact, strategically aligned and catalytic NSO portfolio.

23. **Addressing differences in risk appetite.** IFAD employs a portfolio approach that balances risk and impact while aligning with its overarching mission. The risk appetites of the funding sources available for NSO operations will be matched with the respective risk profiles of the investments.

24. **Partnerships for scale and risk mitigation.** To realize its ambitious NSO Investment Strategy, IFAD will expand its operational partnerships in line with its Partnership Framework[18] to leverage complementary expertise, networks and cofinancing opportunities, strengthening the delivery of high-quality NSOs. Such partnerships facilitate deal origination, structuring and management, enabling investments that might otherwise be deemed too risky or unfeasible. As the Fund scales up its operations under IFAD13 and strengthens its internal capabilities, it will seek to deepen partnerships with other entities. In the near term, these partnerships will primarily serve as platforms for IFAD to participate in

[16] EB 2024/143/R.19.
[17] Additionality is defined in the NSO Framework.
[18] EB 2019/127/R.4.

co-investment opportunities, leveraging the experience and structuring capacity of established partners. Over time, and contingent upon the full staffing and operational maturity of the Private Sector Operations Division, IFAD aims to gradually assume the role of lead investor in select transactions.

C. Types of investees: A balanced-portfolio approach

25. IFAD's NSO portfolio seeks to evolve into a rough 1/3 allocation model aiming to distribute investments across three types of investees: (i) financial institutions; (ii) impact investment funds; and (iii) catalytic ventures. This approach is designed to balance risk, development impact and alignment with IFAD's experience. IFAD currently has investments across all three types of investments, with a heavy concentration in financially more-robust institutions. Therefore, to realize its catalytic potential, IFAD's NSO Investment Strategy will initially focus on exploring investments in impact funds and catalytic companies until an appropriate portfolio balance is reached. It will do so provided that needed resources with the respective risk appetite are available and to the extent that on-balance-sheet resources can be de-risked through blending.

26. **Financial institutions (FIs).** These are well-established profitable institutions with solid track records and an interest in expanding their agricultural portfolios targeting small-scale producers and contributing to rural development. These investments are typically lower-risk with simpler deal structures and are well-suited to commercial or semi-commercial funding sources. Instruments include senior and subordinated loans. In the future, local currency or risk-sharing features could be included in partnership with DFIs, guarantee providers or other mission-aligned investors to further de-risk transactions and enhance local impact.

27. **Impact funds (IFs).** IFAD will seek to invest in existing or new funds managed by experienced fund managers, targeting financial and social/environmental returns. These investments are medium-to-substantial risk and can entail complex stakeholder structures. Co-investments with funds may also be considered.

28. As per the IFAD13 Report, equity instruments will not be pursued unless there is a real opportunity for impact and leverage. This opportunity can be demonstrated in impact funds, where equity investments have the potential to de-risk and thus mobilize private capital. In such cases, IFAD will invest alongside other like-minded investors in existing funds managed by an experienced fund manager. Impact funds will also enable IFAD to expand its regional coverage through a portfolio approach and reach beneficiaries who only require smaller ticket sizes.

29. **Catalytic investments (CIs).** This category includes investment in emerging growth-oriented businesses with innovative disruptive models – that is, business approaches that significantly alter traditional methods of delivering agricultural finance and services to smallholders, often through technology, service bundling, alternative distribution channels or innovative partnerships. These ventures may not yet be fully profitable but demonstrate that they have a clear pathway to scale and long-term financial sustainability. IFAD plays a catalytic role by offering blended or catalytic finance solutions that help crowd in private capital and accelerate the growth of these ventures.[19] Holding-company structures could potentially take the form of a fund-like structure in which successful business models are scaled across multiple countries, with country operations becoming subsidiaries of a holding structure.

D. Investment instruments

30. As outlined in the Private Sector Operational Strategy, IFAD will offer debt, equity and risk mitigation or risk-sharing products. At present, the Private Sector Financing Programme primarily includes debt financing and one equity fund

[19] The NSO Framework outlines de-risking mechanisms, including technical assistance and blended finance.

investment but over time may expand into other financial instruments. IFAD intends to take a phased approach to its offering: under IFAD13 and IFAD14, it will focus mainly on providing senior loans, subordinated loans and first-loss capital/equity in funds when working with experienced fund managers. Risk-sharing instruments such as guarantees will not be developed in IFAD13 and possibly beyond.

31. NSO investments must meet additionality requirements while aligning with the risk appetite and terms and conditions of IFAD's funding sources. Table 1 provides an overview of how the risk associated with certain investments will be aligned with the risk appetite of the funding source. The table is indicative and provides guidance for the allocation of funds but does not constitute a strict allocation policy.

32. The investment types shown are the financial instruments on which IFAD will focus during IFAD13. In the midterm, additional financial instruments may be introduced to broaden IFAD's product offering.

33. In addition, flexible and tailored technical assistance – bundled with NSO financial investments, aligned with NSO procurement guidelines and designed specifically to complement the investment – is provided to de-risk operations, enhance development impact, and strengthen the capacity, governance and systems of private sector recipients. While the investment may align with and support the broader objectives of IFAD's sovereign operations, the technical assistance is solely intended to reinforce the success and sustainability of the NSO engagement.

Table 1
Overview of match categories and funding sources

	FIs	**CIs**	**IFs**
Investment type	Senior loans, subordinated (sub) debt	Debt (sub and senior)/equity	First-loss/equity, debt for leverage
Targeting of smallholder farmers (SHFs)	Indirectly reached via onlending	SMEs offer direct benefits to SHFs through offtake and/or financing arrangements	SHFs benefit via catalytic investee companies
Additionality requirements	Strict avoidance of crowding out private actors	First mover/ substantial risk capital deployment	De-risk (mezzanine debt)/leverage from existing equity providers
Source of funding	IFAD13 PSTF IFAD core for de-risking	PSTF	PSTF (first-loss/equity)
Risk appetite	Medium	Substantial	Substantial

E. Pipeline NSOs

34. The development of IFAD's NSO pipeline involves a systematic coordinated approach to origination and mapping. The approach ensures alignment with IFAD's mandate, relevance to its priorities and the delivery of significant development impact. The pipeline approach has been developed in line with the NSO Framework and adheres to the principles of engagement with the private sector.[20]

[20] The NSO Framework includes country ownership, complementarity, compliance with IFAD rural finance policy, avoidance and control, transparency and accountability, pp. 5-6.

35. A key channel for deal flow is referrals from DFIs, impact investors and ecosystem partners (see para. 24 on partnerships). These relationships enable IFAD to co-source deals through shared due diligence, access to established networks and joint co-investment structures.

36. Recognizing the value of proximity and local intelligence, IFAD is also scaling up its regionally-based private sector expertise. This field-level engagement allows for more in-depth technical assessments and greater market responsiveness. Through collaboration with sovereign operations, IFAD's private sector operations can identify bankable opportunities and support early-stage project development at the country level.

37. As IFAD continues to grow its profile in private sector development, it also anticipates an increase in unsolicited market-driven proposals. Over time, the Fund aims to establish a recognized brand that will naturally attract investees seeking catalytic capital and mission-aligned partnerships.

F. Geographic focus

38. In line with the priorities set out for IFAD13, IFAD's strategy places a strong emphasis on channelling resources to low-income and lower-middle-income countries, where rural poverty and food insecurity are most severe and access to private capital most constrained. At the same time, IFAD13 recognizes the relevance of engaging in upper-middle-income countries where rural transformation challenges persist, particularly in marginalized regions and underserved communities.

39. Private sector recipients domiciled in IFAD Member States are eligible for funding. However, to manage political and economic risk while ensuring equitable regional representation, geographic balance will be pursued across IFAD's five operational regions and 92 eligible countries, while maintaining a focus on LICs and Africa.

40. NSOs can be country-specific, focused on a particular region or be global in scope. The identification of target countries for private sector engagement is based on their high development needs, potential for impact and opportunities to crowd in private capital. Many are also characterized by limited access to finance, underdeveloped markets and significant barriers for smallholder farmers – conditions where IFAD's catalytic role can be most transformative.

41. It is important to note that the geographic prioritization of LICs is subject to the availability of concessional and substantial risk capital, which is essential to support investments in challenging environments.

G. Impact themes

42. IFAD will deliver NSOs that initially provide impact in five key themes during IFAD13: (i) women's empowerment; (ii) resilience and adaptation to climate change; (iii) nutrition; (iv) youth; and (v) fragility. It should be noted that not every NSO is expected to address all five themes. Assessment of each investment will be based on its relevance and contribution to one or more of these areas, depending on the nature of the business model, context and target beneficiaries. As IFAD's impact themes change or are modified, NSO impact themes will be adjusted accordingly.

H. Complementarity of SOs and NSOs

43. Complementarity is cross-cutting in IFAD's private sector strategy and will be achieved through several key mechanisms. IFAD's specialized private sector regional staff will provide local expertise to align investments with development priorities, while the integration of sovereign and non-sovereign operations ensures synergies and resource flow between the two areas.

44. In IFAD13 and beyond, a more structured pathway is being taken to strengthen the alignment between NSOs and SOs. This includes ensuring that private sector opportunities, both sovereign and non-sovereign, are consistently addressed in country strategic opportunities programmes (COSOPs)/country strategy notes, along with closer involvement by IFAD country offices – e.g. during NSO partner origination, identification of complementarities during design and close engagement with partners and institutional counterparts during field visits.

45. All future country strategies will include private sector components, and country programmes will integrate entry points and connections with the private sector. Consequently, COSOPs will play a critical role in informing the design of NSO operations – particularly in identifying priority value chains, regional presence, national development goals and alignment with the sovereign portfolio.[21]

V. Risks

A. Risk profile assessment of NSOs

46. **Risk tolerance.** IFAD employs a balanced approach to risk, aiming to effectively support development without compromising the Fund's financial health. While IFAD continues to focus mainly on sovereign operations, it will gradually expand NSOs. Considering the different sources of financing, it is expected to allocate resources to operations with different risk profiles. This means that NSOs financed with borrowed resources, in alignment with IFAD's Risk Appetite Statement, shall have moderate credit risk, while those financed through the PSTF are expected to embed higher risk.

47. **Credit and investment risk.** IFAD employs a prudent approach to assessing and managing credit risks when investing in private sector projects. To that end, it conducts a rigorous risk assessment of each individual transaction while maintaining a prudential portfolio approach.

48. **Within the NSO portfolio,** IFAD will strategically utilize blended finance, combining grants, returnable capital and IFAD resources in its NSO review to balance risk and match it with the different funds to support impactful projects in developing countries, ensuring that concessional funding is used fairly without distorting market conditions.

B. Reputational and environmental, social and governance (ESG) risks

49. IFAD carefully manages reputational, data governance and ESG risks through due diligence and effective project structuring. To maintain high standards and reduce potential risks, it strictly adheres to its Anti-Money Laundering and Countering the Financing of Terrorism Policy and Social, Environmental and Climate Assessment Procedures (SECAP).

50. For private sector investments, IFAD incorporates clear compliance requirements within financing agreements, with specialized oversight by its crime unit in the Financial Controller's Division, as well as the Operational Policy Unit, the Office of Development Effectiveness and the Environment, Climate, Gender and Social Inclusion Division for SECAP compliance.

51. Furthermore, IFAD places particular emphasis on climate finance operations, actively safeguarding against "greenwashing" or misleading environmental claims. The SECAP requirements shall be adapted to the size, complexity and operating environment of investments. Details on SECAP and the exclusion list can be found in chapter 8 of the Social, Environmental and Climate Assessment Procedures.[22]

[21] The NSO Framework (annex IV) further provides detailed explanations of how complementarity is assessed in NSOs.
[22] Volume 2, chapter 8. https://www.ifad.org/en/social-environment-assessment-procedures.

C. Monitoring and reporting impact

52. Through the NSO Investment Strategy, IFAD aims to deploy catalytic financial instruments, combined with strong targeting, technical expertise, innovation and de-risking tools, to close the funding gap faced by smallholder farmers and rural communities. To ensure consistent, accurate data collection and analysis and reporting of results, core standardized outreach and impact indicators are integrated into the results framework of each individual NSO during the design phase. These indicators are aggregated, enabling IFAD to track progress and measure results across all NSOs, providing donors and investors with valuable insights on the overall achievements of the NSO Investment Strategy.[23]

53. The Private Sector Financing Programme results framework guides the deployment of the NSO Investment Strategy towards sound economic, social and environmental outcomes. It is currently being revised, in close collaboration with relevant IFAD departments, to incorporate evolving priorities, data requirements and impact measurement approaches, explicitly addressing the need for NSO-suitable indicators and aligning key results metrics with the IFAD13 Results Management Framework,[24] while maintaining the flexibility required to accommodate the diversity of NSO operations. In particular, the Private Sector Operations Division is working in close collaboration with the recently established Office of Development Effectiveness with a view to introducing greater standardization in its impact reporting and leveraging additional external resources.

[23] Attribution for the achieved results of NSO partners will be carefully assessed.
[24] GC 47/L.5.