
Update to the IFAD Risk Appetite Statement

Document: EB 2025/145/R.25

Agenda: 8(a)

Date: 5 August 2025

Distribution: Public

Original: English

FOR: APPROVAL

Useful references: IFAD Risk Appetite Statement ([EB 2021/134/R.21/Rev.1](#)).

Action: The Executive Board is invited to approve the proposed policy update.

Technical questions:

Roger Fischer

Director and Chief Risk Officer
Office of Enterprise Risk Management
e-mail: r.fischer@ifad.org

Update to the IFAD Risk Appetite Statement

1. IFAD's Risk Appetite Statement (RAS), approved by the Executive Board in December 2021, is designed to articulate how the Fund approaches and manages risk, considering the environment in which it operates. The introduction of non-sovereign operations (NSOs) during the Thirteenth Replenishment of IFAD's Resources (IFAD13), funded through US\$90 million from IFAD's borrowed resources and supported by US\$18 million from core resources, requires an update to the RAS to incorporate the Fund's approach to risk-taking and its management of risk for this type of operation. The RAS, as amended, does not apply to NSOs financed through supplementary resources.
2. The introduction of NSOs into IFAD's operations financed by core and borrowed resources does not represent a diversion from IFAD's commitment to continuously pursuing its mission and strategic objectives while maintaining its financial stability. Through NSOs, IFAD strives to continue to devote its resources to deliver its mandate. To that end, Management constantly assesses IFAD's capacity to engage in mission-aligned non-sovereign projects while maintaining adequate levels of liquidity and capitalization. The assessment of IFAD's risk capacity 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.
3. The RAS is applied to NSOs for two reasons: first, from a strategic perspective, while the expansion of private sector engagement represents a priority area of focus, IFAD will remain predominantly oriented towards financing sovereign operations; second, from a financial perspective, IFAD remains committed to maintaining its AA+ rating and avoiding any material impact on IFAD's rating strengths (e.g. mission, governance, policy importance).
4. As specified in the RAS, IFAD's risk taxonomy is organized on three levels:
 - (i) Risk domains (level 1), which represent the primary categories of risk to which the Fund is exposed;
 - (ii) Risk subdomains (level 2), which represent the main enduring components of each level 1 risk domain; and
 - (iii) Risk drivers (level 3), which represent the main risk drivers monitored as part of the risk management process and reported on using established key risk indicators.
5. NSOs principally concern the domain of **financial risk** (level 1), or the risk of financial losses resulting from the Fund's inability to manage financial resources efficiently and economically, and satisfy financial commitments.
6. NSOs generally entail a higher level of credit risk (level 2), which refers to the risk of loss resulting from a borrower's or counterparty's failure to repay a loan or otherwise meet contractual obligations. Bearing this in mind, IFAD's appetite for credit risk will remain moderate.
7. With regard to leverage and capitalization (level 2), which is defined as the risk that IFAD's capitalization or capital position could be insufficient to safeguard its ability to continue as a going concern, IFAD's appetite for this risk is low and, henceforth, IFAD's involvement in NSO projects will be gradual. The size of the NSO will be determined on a case-by-case basis, taking into account the evolving credit quality of the portfolio, as well as the availability of financial resources in the relevant replenishment cycle. Finally, the last subdomain of financial risk refers to liquidity and funding (level 2), or the risk of loss resulting from an inability to meet cash flow needs in a timely manner. IFAD has a low appetite for this subdomain.
8. **Strategic risk** (level 1) refers to the risk to IFAD's ability to carry out its mission, execute its strategies and meet its objectives. The approach to strategic risk

(level 1) and its subdomain (level 2) parameters in the NSO context will remain the same as in the context of IFAD's sovereign operations.

9. **Operational risk** (level 1) is 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 IFAD's reputation. IFAD will maintain the current appetite at the operational risk domain (level 1) and its subdomains (level 2) by continuing to implement the necessary controls and operational risk management procedures in the NSO context.
10. **Programme delivery risk** (level 1) is the risk to IFAD's ability to achieve the expected results in its projects, programmes or strategies, and the risk of unintended consequences. IFAD will maintain the current appetite at the programme delivery risk domain (level 1) and its subdomains (level 2) in the NSO context. The risk approach to NSOs will be commensurate and adapted to the idiosyncratic aspects of these types of transactions.
11. As far as legal and reputation risks are concerned, these are cross-cutting risk categories prevalent throughout IFAD's business operations and embedded across the four risk (level 1) domains. **Reputational risk** can call into question IFAD's credibility, creating a gap between the IFAD's performance or behaviour, and the expectations/perceptions of stakeholders.
12. Finally, **legal risk** is defined as any risk of financial loss, reputational damage or operational disruption stemming from a failure to comply with IFAD's rules and regulations, or contractual obligations. Additionally, legal risk may materialize as an undermining of IFAD's privileges and immunities. Considering the heightened legal risk associated with NSO transactions, NSOs may require IFAD to take additional legal measures to protect IFAD's interests.