

CLIMATE INVESTMENT FUNDS

JOINT CTF-SCF/TFC.15/6
November 2, 2015

Meeting of the CTF Trust Fund Committee
Washington D.C.
Monday, November 9, 2015

Agenda Item 6

**RISK REPORT OF THE CTF AND SCF
EXECUTIVE SUMMARY**

PROPOSED DECISION

The joint meeting of the CTF and SCF Trust Fund Committees (TFC), having reviewed the document, CTF-SCF/TFC.15/6, *Risk Report of the CTF and SCF*, dated October 30, 2015,

- i. Takes note of the progress made in implementing and refining the ERM Framework.
- ii. Agrees that the Sr. Risk Management Officer should continue to finalize non-disclosure agreements and other arrangements with the MDBs to facilitate access to critical risk-related information so that deeper more thorough risk assessments and reporting will become possible.
- iii. Agrees that the Sr. Risk Management Officer should proceed with same systematic approach for implementing the ERM Framework for the subprograms under the SCF, defining the top-level risk and objective for each subprogram, as well as the Risk Categories, Tier 1 and 2 Risks and Risk Tolerances, and assessing risks against these tolerances.
- iv. Agrees that, in case of additional contributions to the CTF, the limit to which the CTF may over program will need to be revised.
- v. Agrees that the Sr. Risk Management Officer must be formally included as a mandatory recipient of information pertaining to the occurrence and details of non-payment events.
- vi. Takes note of the progress made in operationalizing the ERM Dashboard.

I. INTRODUCTION

1. This paper provides an update on the Sr. Risk Management Officer's work to implement and improve the ERM Framework by refining the risk classifications and list of Tier 1 Risks, and to begin identifying Tier 2 risks, as well as on the status of the operationalization of the ERM Dashboard.

II. ERM FRAMEWORK UPDATE

2. The Sr. Risk Management Officer is employing a systematic approach to implementing the CIF's ERM Framework, through establishing a multi-level risk hierarchy beginning with the definition of risk and leading to definitions of Risk Categories and more granular Tier 1 and 2 Risks. In doing so, the ERM Framework is being expanded and refined in a number of areas. While this paper focuses on the risk levels, tolerances and mitigants for the CTF, all but one¹ of the 13 Tier 1 Risks are applicable to the SCF as well.
3. An essential first step for establishing the context and objectives of the ERM Framework is to define what risk is for the CTF.

Risk is any threat to the achievement of the CTF's objectives.

This definition, along with the definition of the CTF's objectives, establish the context for the entire ERM Framework. The CTF Governance Framework, defines the CTF's objective as,

To provide scaled-up financing to contribute to demonstration, deployment and transfer of low-carbon technologies with a significant potential for long-term GHG emissions savings.

4. The Sr. Risk Management Officer has classified Tier 1 and 2 Risks according to the following four categories.
 - a) **Strategic Risk:** Risks which affect or are created by the CTF's business strategy and strategic objectives.
 - b) **Operational Risk:** The risk that inadequate or failed internal processes, people and systems or external events will adversely affect the achievement of the CTF's objectives.

¹ The risk that loan contributions are used to finance loans and other financial products, such as guarantees, on terms more concessional than the terms of the loan contributions is only applicable to the CTF because the SCF has not received loan contributions.

c) **Financial Risk:** The risk that exposure to credit, market or liquidity risks will adversely affect the achievement of the CTF's objectives.

d) **Compliance, Legal and Reputational Risk:**

i. *Compliance and Legal Risk:* The risk that failure to comply with laws, rules, regulations, contractual obligations, prescribed practices, or standards or codes of conduct will result in fines, civil monetary penalties, payment of damages, the voiding of contracts, or otherwise adversely affect the achievement of the CTF's objectives.

ii. *Reputational Risk:* The risk that a perception develops that the CTF is unethical or imprudent, adversely affecting the achievement of the CTF's objectives.

5. To improve their clarity and conciseness, the Sr. Risk Management Officer refined the list of Tier 1 risks, which now includes 13 risks, and has begun to identify and include Tier 2 risks.
6. Risk levels are now being assessed based on their mappings to likelihood and severity of impacts, and risk tolerances are being defined so that risk assessments may be compared against risk tolerances to enhance decision-making.
7. Efforts to identify additional risks, and drill down further into existing ones will be ongoing, and new risks will emerge as the environment in which the CTF operates changes. Not all risks are mutually exclusive (e.g. external events can affect a recipient's creditworthiness, interest rates can impact exchange rates, etc.), and where appropriate, the interactions between risks will be highlighted in the ERM Dashboard.
8. Highly confidential private sector loan-level information and credit risk assessments from most of the MDBs remain inaccessible to the Sr. Risk Management Officer at this point. However, the CIF AU and MDBs have been working for the past several months to draft non-disclosure agreements (NDA) and establish other arrangements to facilitate information-sharing at this level. As this information becomes accessible, deeper more thorough risk assessments and reporting will become possible.

III. ERM DASHBOARD UPDATE

9. The CIF AU, Trustee, and the World Bank's Information Technology group have been collaborating on the re-design of the existing functionality and data structures of the ERM Dashboard since June 2015. The operationalization of the Dashboard has been delayed by a few weeks to December 15th due to challenges in (i) identifying the correct sources of data needed for the Dashboard and (ii) obtaining appropriate clearances to gain access to such data sources.