

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.9/CRP.4
November 2, 2012

Joint Meeting of the CTF and SCF Trust Fund Committees
Istanbul, Turkey
November 2, 2012

RISK PROCESS APPLIED TO LOCAL CURRENCY

EXAMPLE RISK REGISTER

(SUBMITTED BY TRUSTEE)

Example Risk Register

ID	Event	Risk Area	Inherent Risk Name	Inherent Risk	Current Management Response & Proposed Management Responses	Residual Risk	Probability	Impact	Priority	Measurement Indicator	Trigger	Additional Recommended Risk Response	Data Needed	Owner	Portfolio Impact
1	Projects under the investment plans, and for which concessional funds are needed, have requested lending in local currency where the Fund the risk	Financial/Strategic/Operational	Projects require local currency loans	<p>CTF and SCF Funds do not meet Fund objectives such as 1) CTF - Realize environmental and social co-benefits, illustrating the potential for low-carbon technologies in contributing to sustainable development and the Millennium Development Goals and 2) Initiate and facilitate transformational change in developing countries' forest related policies and practices</p> <p>Risk that there are losses in loan reflows to the CIFs due to currency depreciation</p> <p>Losses prohibits ability to repay the contributors loans</p> <p>Projects are stuck in pipeline</p> <p>Reputational impact to Funds</p>	<p>Current - TFC does not allow lending to projects in local currency unless developer/MDB undertakes currency risk</p>	<p>CTF and SCF Funds do not meet Fund objectives such as 1) CTF - Realize environmental and social co-benefits, illustrating the potential for low-carbon technologies in contributing to sustainable development and the Millennium Development Goals and 2) Initiate and facilitate transformational change in developing countries' forest related policies and practices</p> <p>Risk that there are losses in loan reflows to the CIFs due to currency depreciation</p> <p>Losses prohibit ability to repay the contributors loan</p> <p>Projects are stuck in pipeline</p> <p>Reputational impact to Funds</p>	High (especially for IDA countries)	High	High	Transformational projects that cannot be completed by country category	Projects stuck in pipeline	Accept risk or mitigate risk by developing process to enable projects to proceed	data to identifying what you are not doing	TFC	High
2					<p>* TFC approves that the CTF and SCF Trust Funds may bear the currency risk related to the repayments of private sector investments financed by the CTF or SCF Trust Funds that are deployed by the MDBs in local currency to meet the needs of local projects/borrowers</p>	<p>SCF - Loss in loan reflows due to Capital repayment risk</p> <p>CTF - Currency of all local currency projects significantly depreciates, impacting ability to repay loan contributors</p>	Med	High	High	Monitoring currency exchange for countries where local currency loans have been provided. Total currency devaluation >10% total loan amount	Total Portfolio LC loans devaluation > 10%	Alert TFC to change policy - either stop future local currency loans, increase interest rates (which may create additional risks such as project stuck pipeline) (other measures TBD i.e. start hedging program)	Country currency exchange rates	Trustee	High
3					<p>* TFC approves that the SCF Trust Fund may bear the currency risk related to the repayments of private sector investments financed by the SCF Trust Fund that are deployed by the MDBs in local currency to meet the needs of local projects/borrowers. Further, the TFC approves that the CTF Trust Fund may bear the currency risk related to the repayments of private sector investments financed by the CTF Trust Fund that are deployed by the MDBs in local currency to meet the needs of local projects/borrowers only if a project meets one of the three criteria or other relevant criteria, taking into consideration other relevant criteria as determined by an approved Enterprise Risk Management Framework.</p>	<p>SCF - Loss in loan reflows due to Capital repayment risk</p> <p>CTF - Currency of approved local currency projects significantly depreciates, impacting ability to repay loan contributors</p>	Med	High	High	Monitoring currency valuations for countries where local currency loans have been approved. Total currency devaluation >10% total loan amount lent in local currency	Approved Portfolio LC loans devaluation > 10%	Alert TFC to change policy - i.e. increase reserve (other measures TBD i.e. start hedging program)	Country currency valuations	Trustee	High
4					<p>*Treat local currency loans as reimbursable grants</p>	<p>SCF & CTF - Less funds available for grant financing</p>	SCF - High CTF - Low	SCF - High CTF - Low	High	Amount of local Currency reimbursable grants to total grant funds available < X% threshold	LC reimbursable grant	Alert TFC that may want to stop making LC loans and determine if policy changes are needed	LC loan grants and total grant funds	Trustee	High

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5					* Expand the current Foreign Exchange Reserve	SCF & CTF - Funds available for future projects could be reduced	High	Low	High	Projected or actual amount of local Currency loan projected loss due to exchange rates is > % of Reserve	Projected LC loan loss %	Alert TFC to determine if policy changes are needed (such as interest rate increases, more contributions)	LC loan loss and reserve amount	Trustee	High
6					* Request Trustee to hedge local currency loan portfolio	SCF & CTF - Hedging transaction costs increases which reduces funds available for projects	High	Low	High	Cost of hedging to the total value of Fund	Hedging cost > X %	Alert TFC to determine if policy changes are needed	Hedging cost Portfolio value	Trustee	High