



# **CTF-SCF/TFC.9/9 Enterprise Risk Management Framework Report for the Climate Investment Funds**

November 2012

# Enterprise Risk Management Framework is...

- ▶ Process
- ▶ Applied across the partnership
- ▶ Designed to:
  - Identify potential events and risks that may affect the CIF
  - Make risk-informed decisions
  - Manage the risks within the CIF's risk tolerances
  - Provide reasonable assurances regarding the achievement of CIF's financial and strategic objectives

**The CIF ERM process includes leveraging MDB, CIF Administrative Unit and Trustee processes to effectively and efficiently administer and utilize the CIF funds**

# The CIF ERM Framework enables...

## TFCs

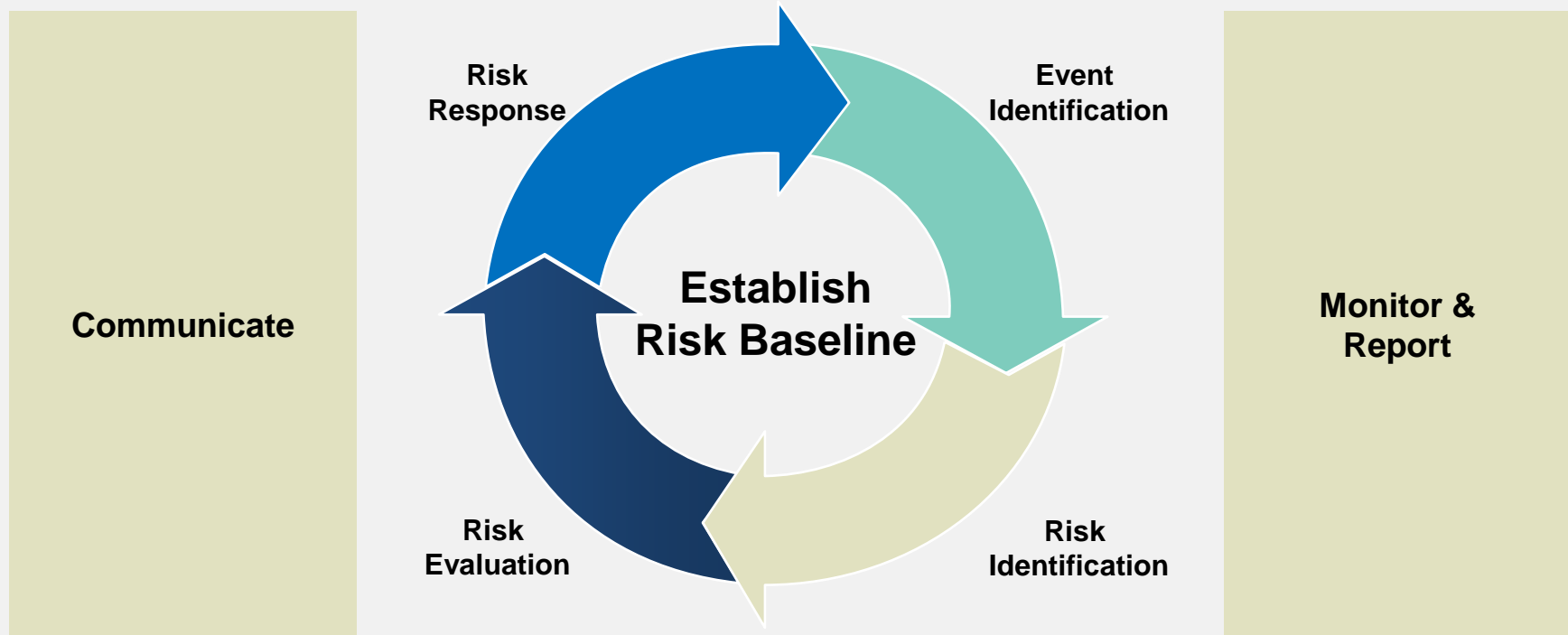
- Risk informed financial, strategic and operational decisions
- Portfolio view of risks
- Decisions aligned with the CIF's objectives and risk tolerances

## MDBs, Trustee & CIF Administrative Unit

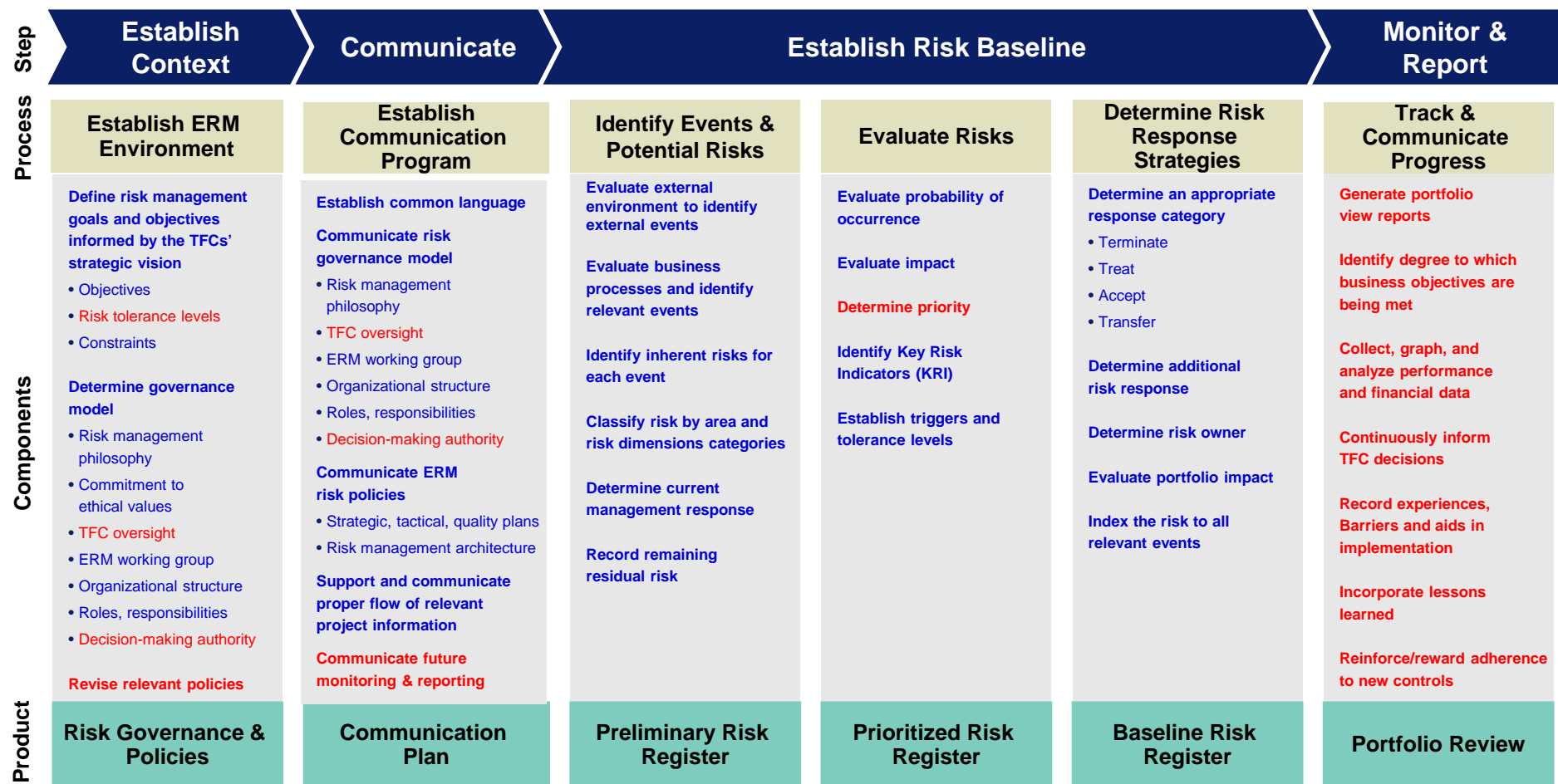
- Communicate in a more transparent and effective manner
- Develop proactive mitigation to potential future events
- Establish risk triggers
- Provide reasonable assurance
- Evaluate relevant information

## Risk Management Methodology – Continuous Process

### Establish the Context - CIF Funds



# CIF ERM Framework: Process consisting of four steps



Initial Analysis Completed / Business Decisions Required to Complete

# Establish context



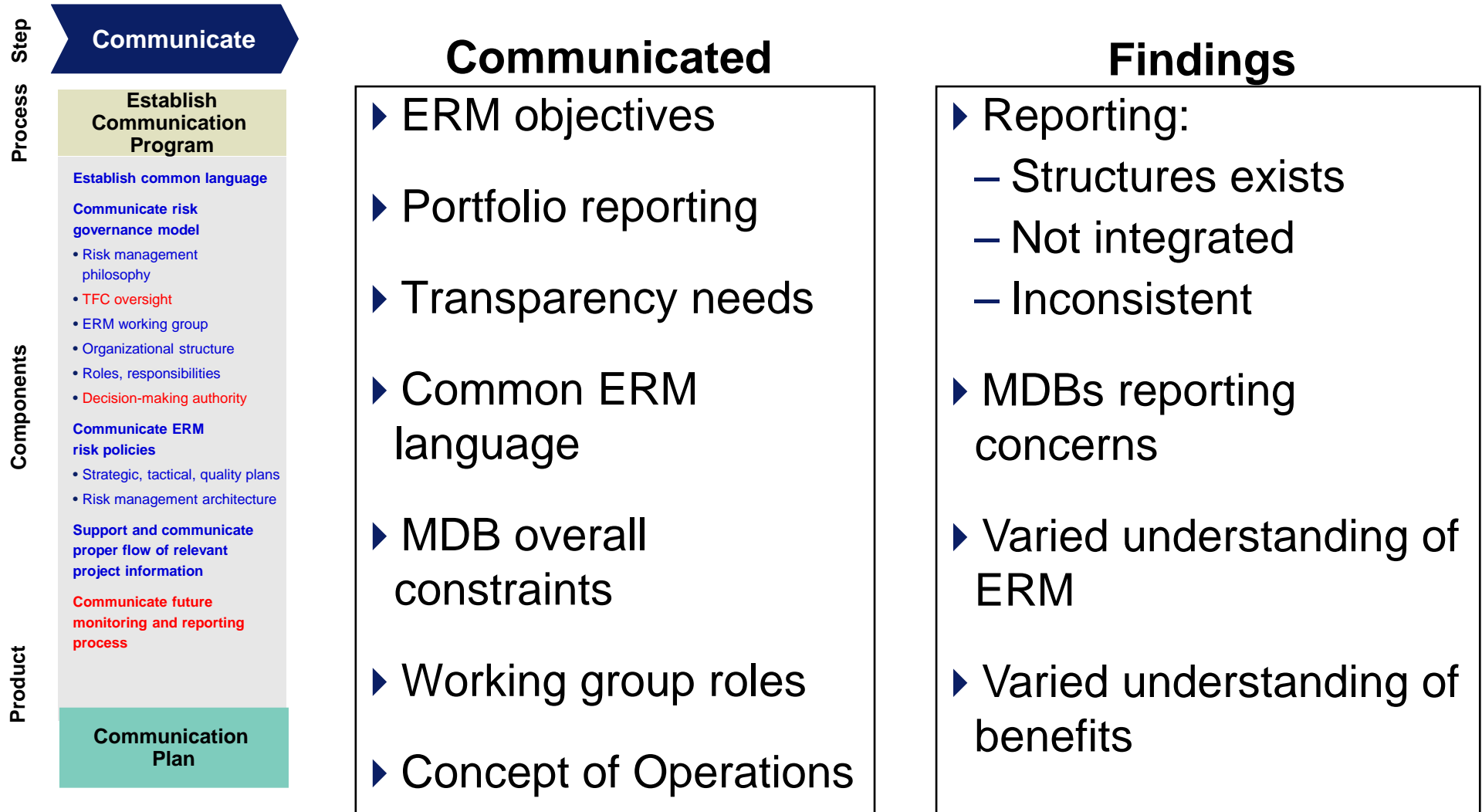
## Completed

- ▶ Defined ERM objectives
- ▶ Created common language
- ▶ Identified constraints
- ▶ Defined working group
- ▶ Defined Concept of Operations

## Findings

- ▶ Clear Fund objectives
- ▶ Varied ERM objectives
- ▶ Established governance structure
- ▶ Clear operational structure
- ▶ Varied tolerance levels

# Communicate



# Establish risk baseline

Step	Establish Risk Baseline		
	Identify Events & Potential Risks	Evaluate Risks	Determine Risk Response Strategies
Process	<p>Evaluate external environment to identify external events</p> <p>Evaluate business processes and identify relevant events</p> <p>Identify inherent risks for each event</p> <p>Classify risk by area and risk dimensions categories</p> <p>Determine current management response</p> <p>Record remaining residual risk</p>	<p>Evaluate probability of occurrence</p> <p>Evaluate impact</p> <p>Determine priority</p> <p>Identify Key Risk Indicators (KRI)</p> <p>Establish triggers</p>	<p>Determine an appropriate response category</p> <ul style="list-style-type: none"> <li>• Terminate</li> <li>• Treat</li> <li>• Accept</li> <li>• Transfer</li> </ul> <p>Determine additional risk response</p> <p>Determine risk owner</p> <p>Evaluate portfolio impact</p> <p>Index the risk to all relevant events</p>
Components			
Product	Preliminary Risk Register	Prioritized Risk Register	Baseline Risk Register

- ▶ Evaluated events ▶ KRIs and triggers
- ▶ Identified inherent risks ▶ Additional response
- ▶ Identified current response ▶ Risk owner
- ▶ Remaining risks ▶ Portfolio impact
- ▶ Probability ▶ Indexed



## Initial Baseline Risk Register



# Risk register structure

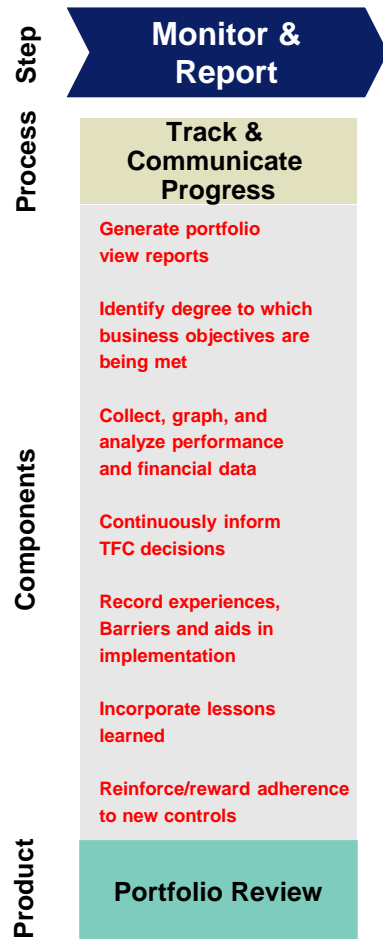
Risk Identification	
Event	Implementation and Supervision
Risk Area	Financial
Risk Dimension	Private Sector Project Credit
Inherent Risk	Private sector borrowers credit rating decreases and the possibility of default increases
Risk Name	Private sector credit
Current Management Response	MDBs track credit rating but do not report to TFC
Remaining Residual Risk	Private sector credit ratings are not aggregated at the portfolio level

Risk Response	
Risk Response Category	Treated
Additional Recommended Response	Aggregate credit ratings at the portfolio level
Owner	TFC
Portfolio Impact	High

Risk Evaluation	
Probability	High
Impact	High
Priority	High
Key Risk Indicator (KRI)	1) Credit Rating 2) Credit Outlook
Trigger	1) Credit ratings: Low: XXX- and higher Medium: XX+ Sustainable: XX High: XX- Justification: the portfolio as of June 2011 was rated XXX-  2) Credit Outlook: Low: less than 10% of the portfolio has a negative outlook Medium: 10% - 14.99% of the portfolio has a negative outlook Sustainable: 15%-19.99% of the portfolio has a negative outlook High: more than 20% of the portfolio has a negative outlook

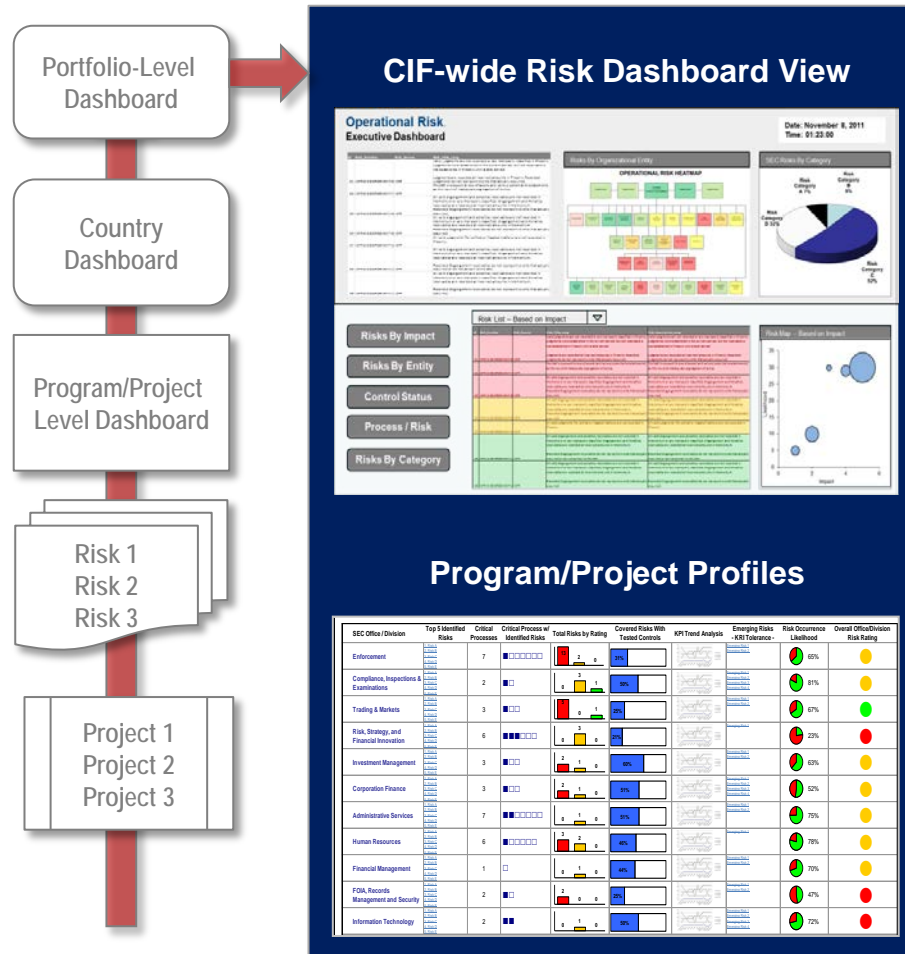
**Note:** The example above illustrates risk register structure. All confidential items will be addressed by and are subject to the approval of the working group.

# Monitor and Report



- ▶ Establish portfolio views
- ▶ Inform TFC
- ▶ Allows early warning
- ▶ Integrate with Results Framework
- ▶ Leverage MDB, Trustee and CIF Administration current processes
- ▶ Need to embed risk responses

# CIF-wide Risk Dashboard



# Establishing an ERM Program working group

## Why?

- Best practice
- Represent business
- Make business decisions to move forward

## What?

- Finalize context
- Select risks
- Finalize communication
- Finalize risk baseline
- Develop monitoring and reporting

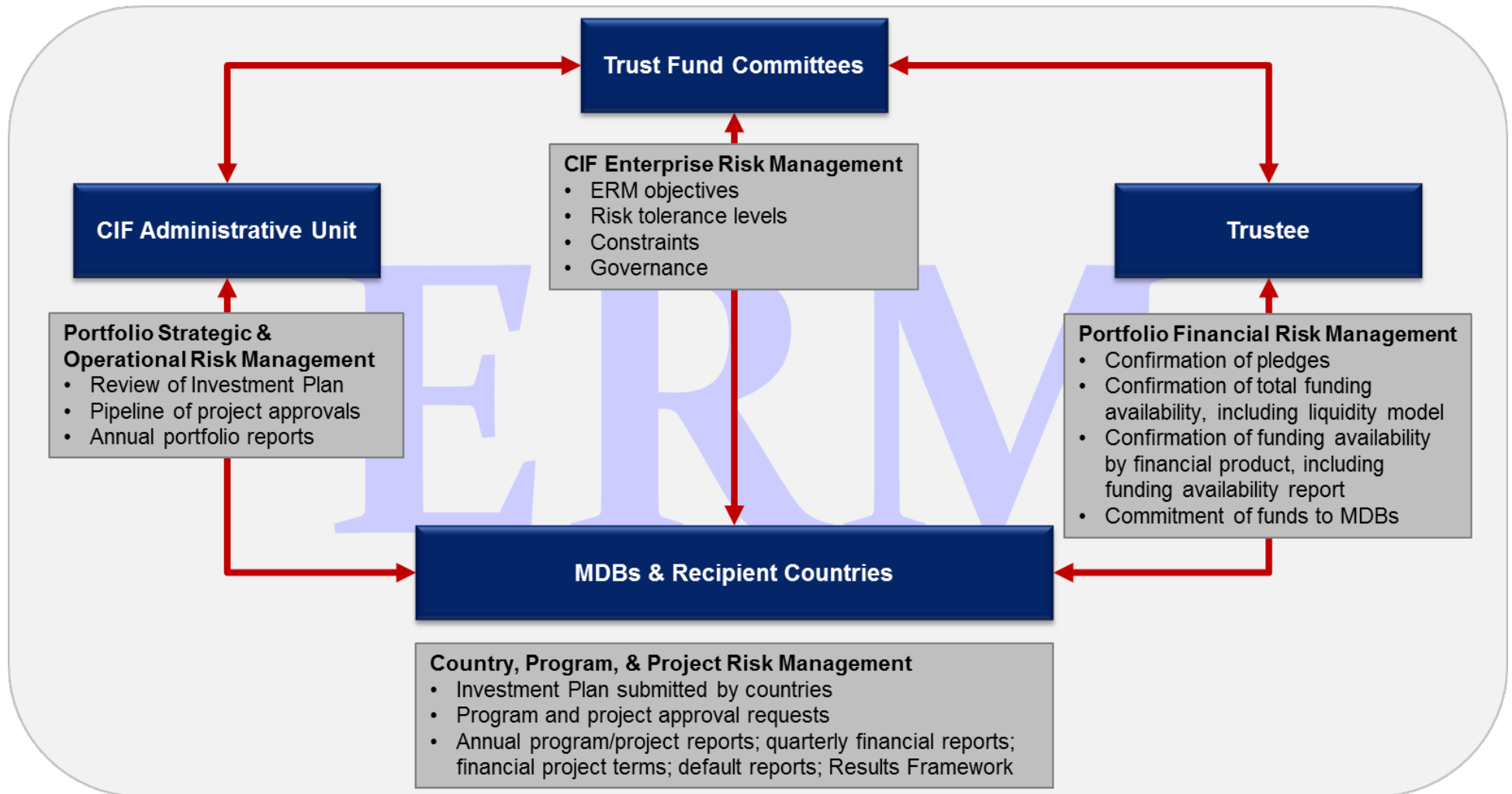
## Who?

- TFC:
  - ✓ Select risks
  - ✓ Tolerances
- Working group
  - ✓ Trustee
  - ✓ CIF Admin
  - ✓ MDBs
  - ✓ ERM expert

## How?

- Iterative approach
- Report to TFCs at joint meetings

# Concept of Operations



# The way forward



CIF ERM  
Implementation Pla

## **Review Example Risk Register**

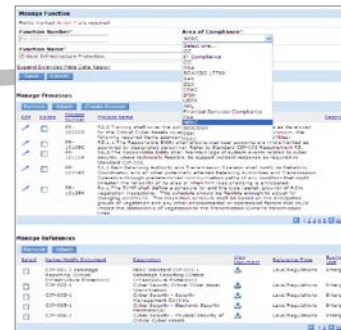
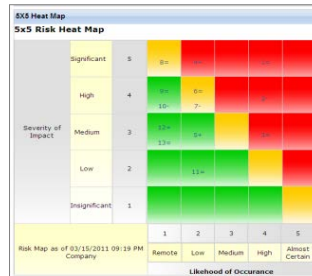
## **Sample Scorecards and Risk Reports**



**The ERM software suites analyzed all contain a medley of process steps and visualization options to support the risk management process**

## Internal & External Events

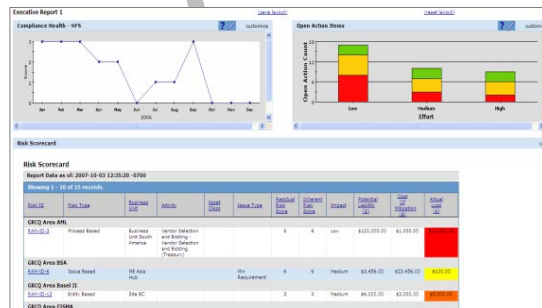
## Heat Maps



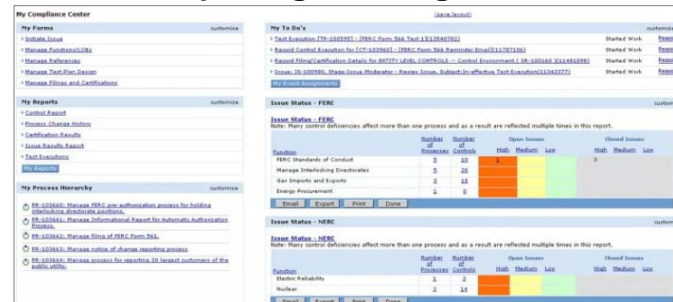
## Risk & Control Documentation

[illegible]

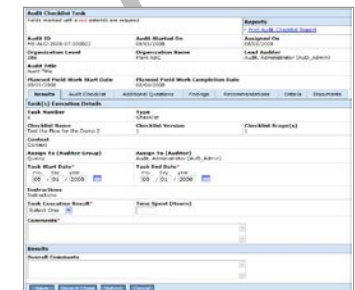
## Key Risk Indicators



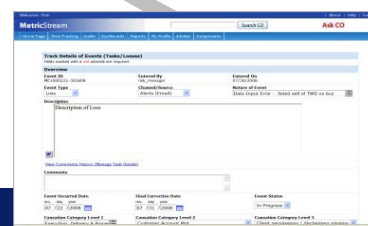
## Reporting & Management



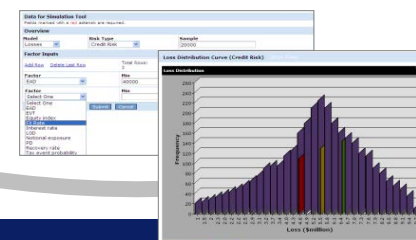
## Risk Assessment



## Risk Mitigation & Action Planning



## Scenarios Analysis



# The ERM tools offer scenario analysis and scoring capabilities via a variety of available data input options

	Process1	Process2	Process3
Accounting Policy Risk	H	M	H
Asset Servicing Risk	M	M	L
<b>Total Score</b>	H	M	M

	Process1	Process2	Process3
Accounting Policy Risk	L	M	L
Asset Servicing Risk	M	M	L
<b>Total Score</b>	M	M	L

## Functionality:

- Assess individual sets of risks
- Arrive at total scores independently
- Use the scores to populate dashboards/reports
- Compare each user's scores to scores of others

	Process1	Process2	Process3
Access Control Risk	?	?	?
Asset Servicing Risk	?	?	?
Security Risk	?	?	?
<b>Total Score</b>	?	?	



Manage Scenarios

Delete
Add Row
Delete Last Row
Total Rows 8 Pages 2
2

Scenario Name\*
Active Scenario
Assessment Type\*
Select One

Default Scenario?\*
Select One
Calculate Residual Scores\*
Select One
Continuous Assessment?\*
Select One

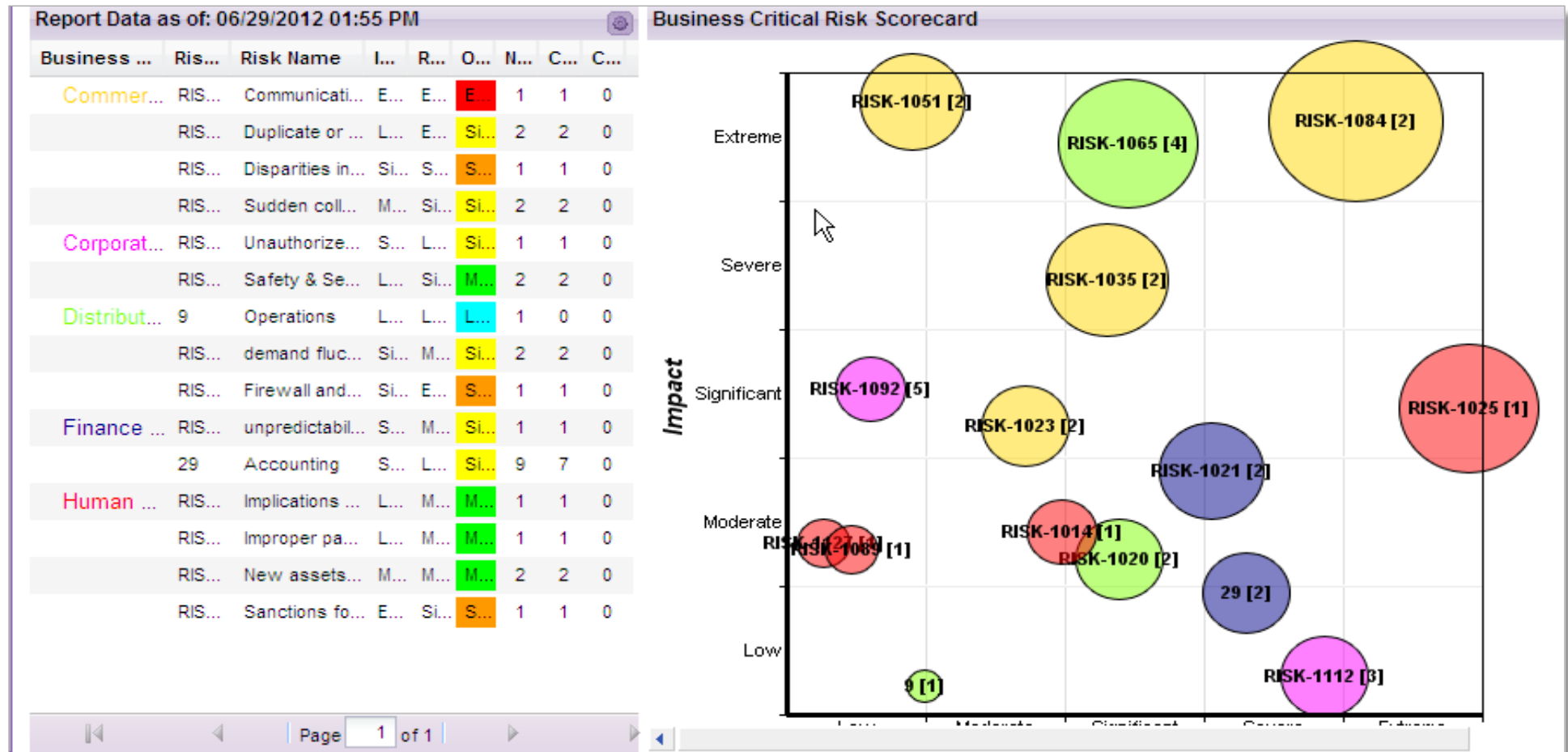
Risk Categories
Assessed By\*
Select One

Additional Information

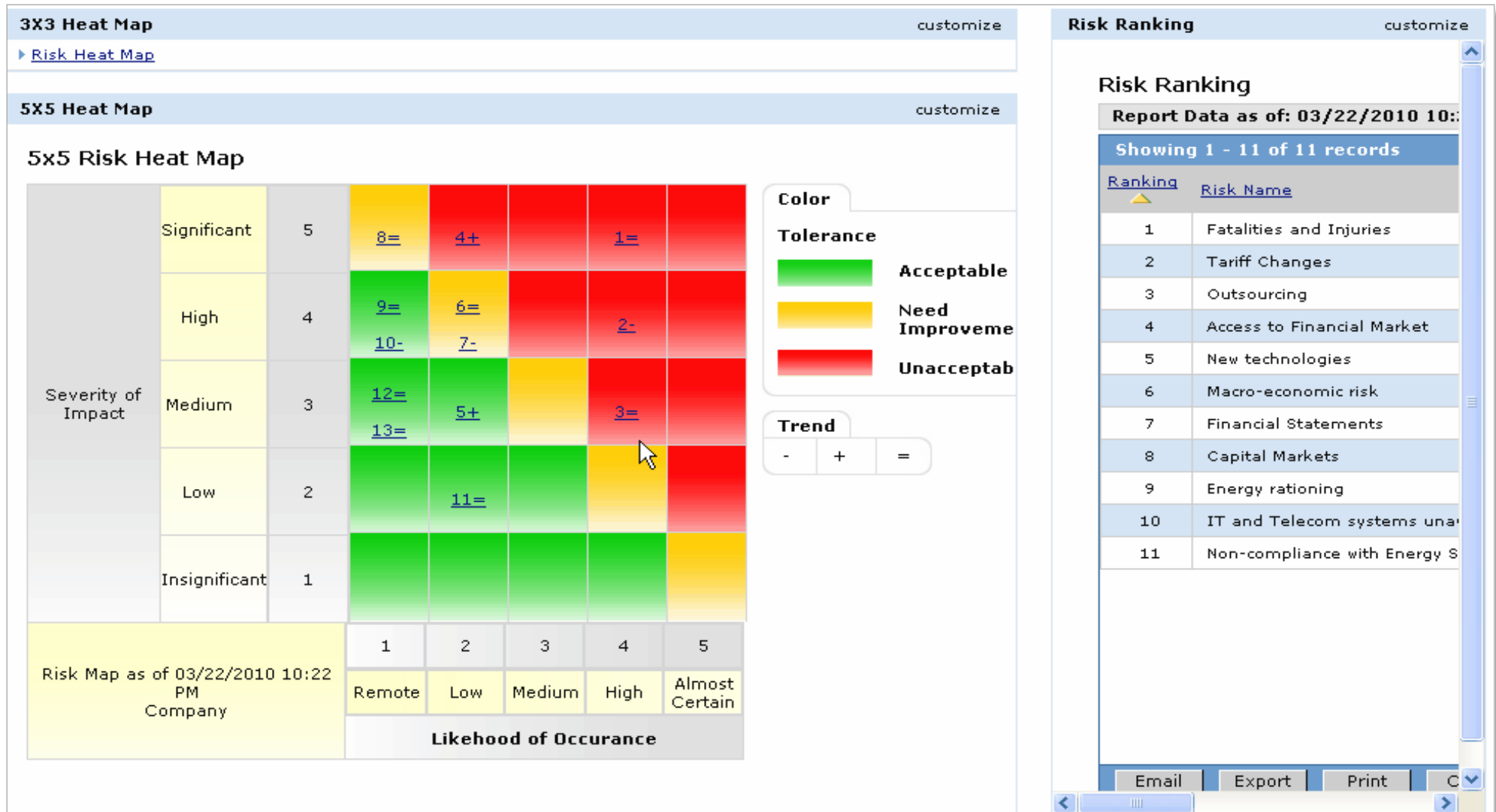
Valid Till
mo. day year
Scenario Algorithm\*
Select One

	Process1	Process2	Process3
Access Control Risk	H	H	L
Asset Servicing Risk	M	H	
Security Risk	M	H	
<b>Total Score</b>	M	H	L

# The ERM tools offer robust, informative dashboards such as the business critical risk scorecard and the risk bubble charts displayed below



# The outputs of ERM user interfaces include visuals such as heat maps and scorecards to assess, prioritize, and monitor risks



# Additional examples of user interface and scorecards available through the ERM vendors researched

**Update Risk** KAIROS methodware

**Risks: Missing or untimely receipt of documents**  
Missing or untimely receipt of documents

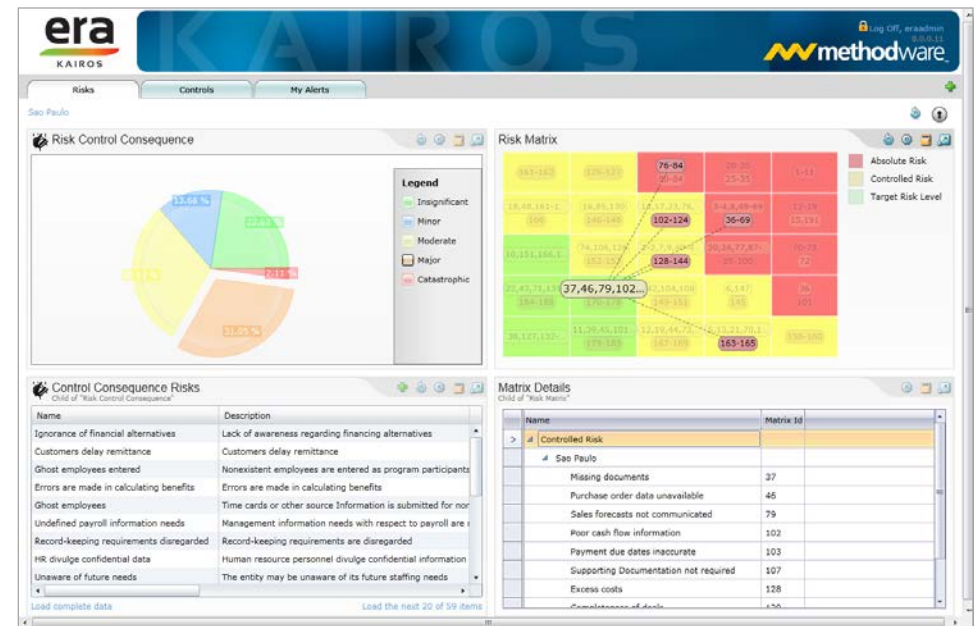
Risk Owner: Bob Adderley  
Risk Status: Stable  
Next Review: 23/09/2010

	Consequence	Likelihood	Risk Score	Severity
Absolute	Major	Likely	16	High
Controlled	Major	Possible	12	Moderate
Target	Major	Possible	12	Moderate

**Controls**

number	Name	Description	Control Owner	Date Created
13	Maintain accounts payable ledger by discount date	Maintain accounts payable ledger by discount date	Tom Bolger	4/03/2009
14	Identify and investigate unmatched information	Investigate unmatched information before due date	Bob Adderley	4/03/2009

Cancel Save



# ERM software suites also feature the functionality to plot key performance indicators

