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...

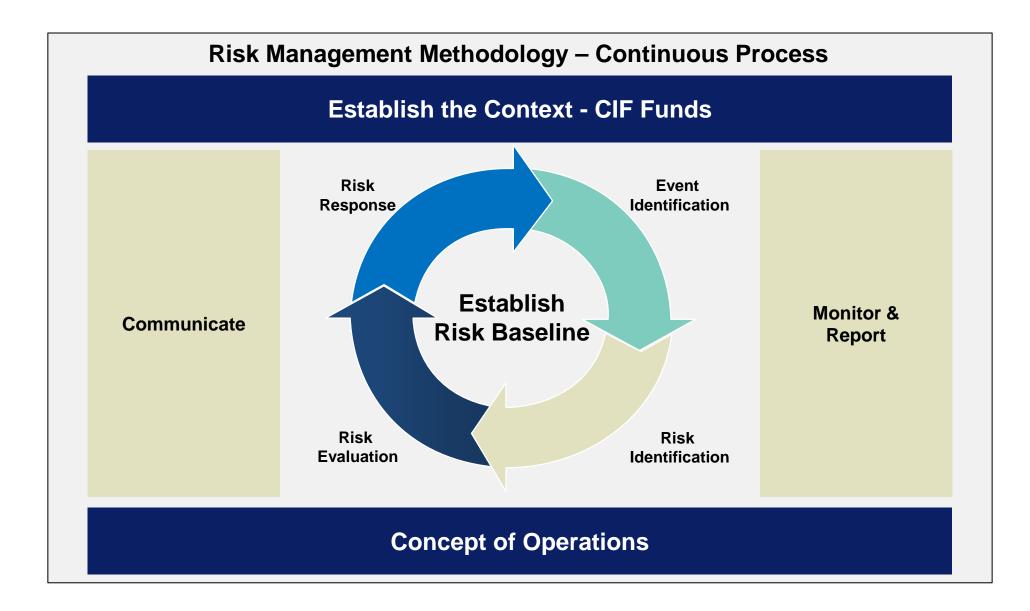
TFCs

- 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







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CIF ERM Framework: Process consisting of four steps

Step	Establish Context	Communicate	> E	Monitor & Report		
Process	Establish ERM Environment	Establish Communication Program	Identify Events & Potential Risks	Evaluate Risks	Determine Risk Response Strategies	Track & Communicate Progress
Components	Define risk management goals and objectives informed by the TFCs' strategic vision • Objectives • Risk tolerance levels • Constraints Determine governance model • Risk management philosophy • Commitment to ethical values • TFC oversight • ERM working group • Organizational structure • Roles, responsibilities • Decision-making authority	Establish common language Communicate risk governance model • Risk management philosophy • TFC oversight • ERM working group • Organizational structure • Roles, responsibilities • Decision-making authority Communicate ERM risk policies • Strategic, tactical, quality plans • Risk management architecture Support and communicate proper flow of relevant project information Communicate future monitoring & reporting	Evaluate external environment to identify external events Evaluate business processes and identify relevant events Identify inherent risks for each event Classify risk by area and risk dimensions categories Determine current management response Record remaining residual risk	Evaluate probability of occurrence Evaluate impact Determine priority Identify Key Risk Indicators (KRI) Establish triggers and tolerance levels	Determine an appropriate response category • Terminate • Treat • Accept • Transfer Determine additional risk response Determine risk owner Evaluate portfolio impact Index the risk to all relevant events	Generate portfolio view reportsIdentify degree to which business objectives are being metCollect, graph, and analyze performance and financial dataContinuously inform TFC decisionsRecord experiences, Barriers and aids in implementationIncorporate lessons learnedReinforce/reward adherence to new controls
Product	Risk Governance & Policies	Communication Plan	Preliminary Risk Register	Prioritized Risk Register	Baseline Risk Register	Portfolio Review

Initial Analysis Completed / Business Decisions Required to Complete



Establish context

Establish Context Establish ERM Environment **Define risk management** goals and objectives informed by the TFCs' strategic vision Objectives Risk tolerance levels Constraints **Determine governance** model Risk management philosophy Commitment to ethical values TFC oversight • ERM working group Organizational structure · Roles, responsibilities Decision-making authority **Revise relevant policies Risk Governance & Policies**

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



Product

Step

Process

Components

Communicate

Process Step

Establish Communication Program

Communicate

Establish common language

Communicate risk governance model

- Risk management philosophy
- TFC oversight

• ERM working group

- Organizational structure
- Roles, responsibilities
- Decision-making authority

Communicate ERM risk policies

- Strategic, tactical, quality plans
- Risk management architecture

Support and communicate proper flow of relevant project information

Communicate future monitoring and reporting process

Product

Components

Communication Plan

Communicated

- ERM objectives
- Portfolio reporting
- Transparency needs
- Common ERM language
- MDB overall constraints
- Working group roles
- Concept of Operations

Findings

- Reporting:
 - Structures exists
 - Not integrated
 - Inconsistent
- MDBs reporting concerns
- Varied understanding of ERM
- Varied understanding of benefits



Establish risk baseline

de	E	stablish Risk Baseli	ne	
Components Process Step	L Identify Events & Potential Risks Evaluate external environment to identify external events Evaluate business processes and identify relevant events Identify inherent risks for each event Classify risk by area and risk dimensions categories Determine current management response Record remaining residual risk	Evaluate Risks Evaluate probability of occurrence Evaluate impact Determine priority Identify Key Risk Indicators (KRI) Establish triggers	Determine Risk Response Strategies Determine an appropriate response category • Terminate • Treat • Accept • Transfer Determine additional risk response Determine risk owner Evaluate portfolio impact Index the risk to all relevant events	 Evaluated events > KRIs and triggers Identified inherent risks > Additional response Identified current response > Risk owner Remaining risks > Portfolio impact Probability > Indexed
Product	Preliminary Risk Register	Prioritized Risk Register	Baseline Risk Register	

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						

	Et a
	Risk Evaluation
Probability	High
Impact	High
Priority	High
Key Risk Indicator (KRI)	1) Credit Rating 2) Credit Outlook
Trigger	 Credit ratings: Low: XXX- and higher Medium: XX+ Sustainable: XX High: XX- Justification: the portfolio as of June 2011 was rated XXX- 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

Monitor & Step Report Process Track & Communicate Progress **Generate portfolio** view reports Identify degree to which business objectives are being met Collect, graph, and analyze performance Components and financial data **Continuously inform TFC decisions Record experiences**, Barriers and aids in implementation **Incorporate lessons** learned **Reinforce/reward adherence** to new controls Product Portfolio Review

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



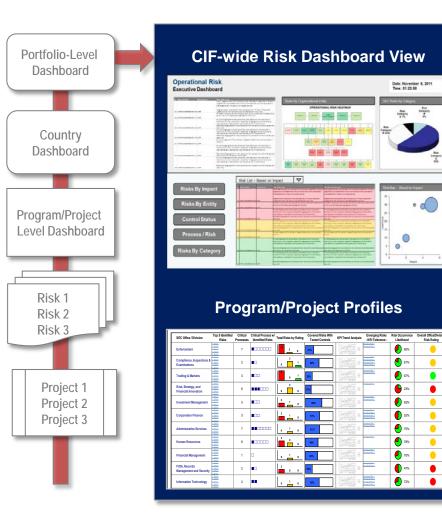
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CIF-wide Risk Dashboard

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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:

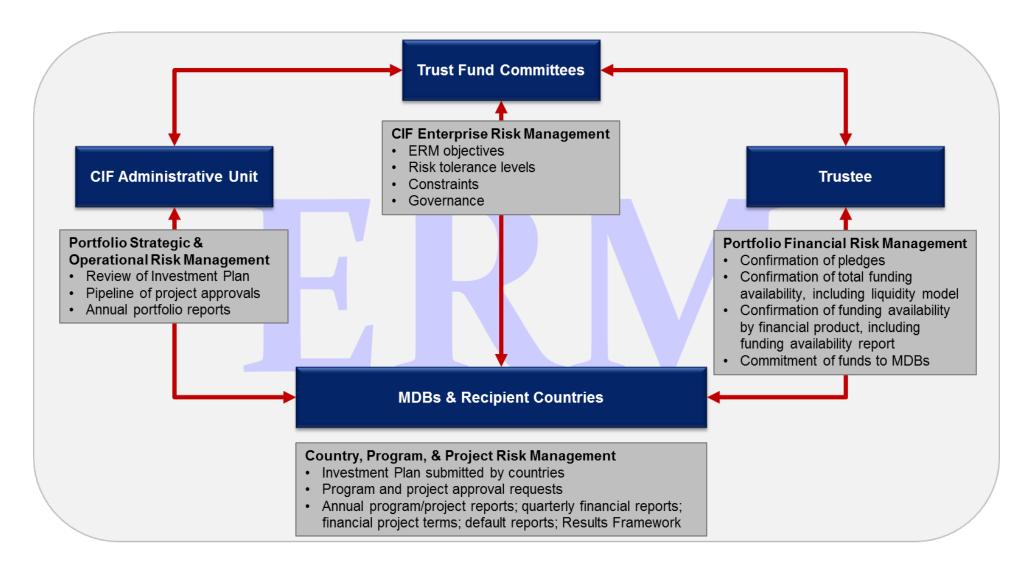
- ✓ Select risks
- ✓ Tolerances
- Working group
 - ✓ Trustee
 - ✓ CIF Admin
 - ✓ MDBs
 - ✓ ERM expert

How?

- Iterative approach
- Report to TFCs at joint meetings



Concept of Operations





The way forward



CIF ERM nplementation Pla





Review Example Risk Register





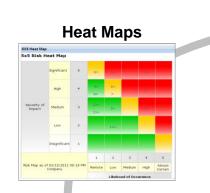
Sample Scorecards and Risk Reports





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

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Key Risk Indicators



Reporting & Management



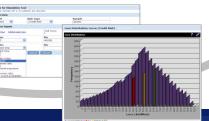
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Risk Mitigation & Action Planning



Scenarios Analysis



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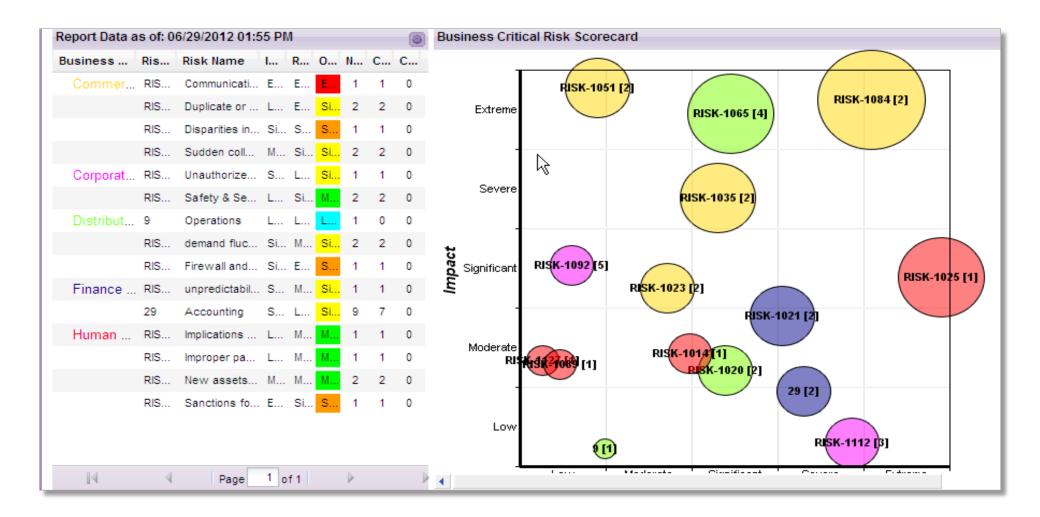


The ERM tools offer scenario analysis and scoring capabilities via a variety of available data input options

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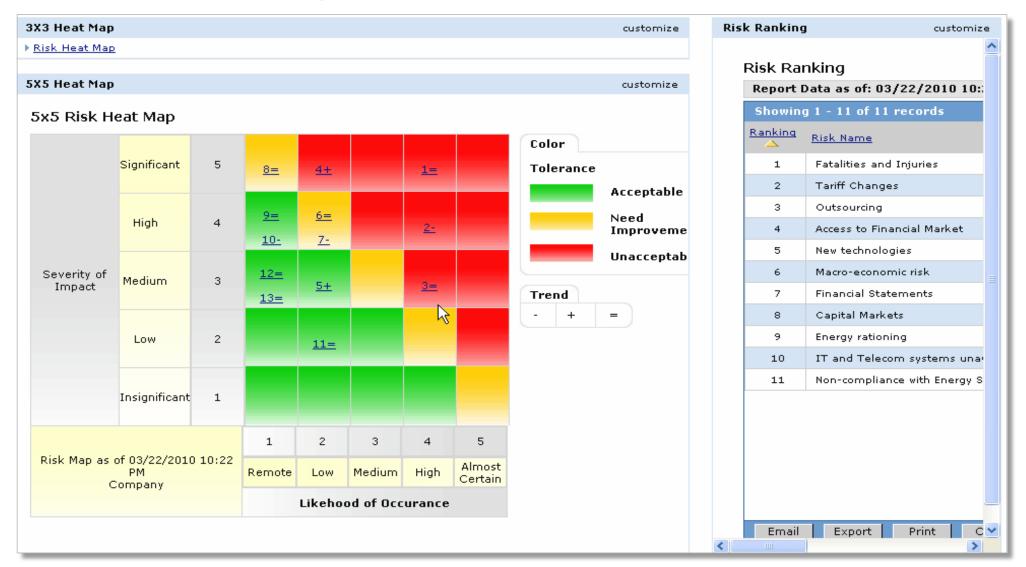


The ERM tools offer robust, informative dashboards such as the business critical risk scorecard and the risk bubble charts displayed below





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





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

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

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