



Risk Report for the Forest Investment Program (FIP)

June 6, 2018

Overview

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2. Risk Assessments

- i. Implementation Risk
- ii. Currency Risk
- iii. Resource Availability Risk

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Highlights

- At the intersessional meeting held on March 8, 2018, the SCF TFC agreed that reflows from SCF loans may be used to finance the potential shortfall of grant resources to cover administrative costs, and that the pause in approval of SCF funding be lifted.
- Implementation Risk for the FIP remains **Medium** as 2 projects representing USD 28 million of approved funding are been flagged for this risk.
- Although the GBP appreciated against the USD by 4.6%, causing the unrealized decline in the value of FIP's unencashed promissory notes to decrease to USD 25 million from USD 37 million, the program's exposure to this risk remains **High**.
- Although the shortfall in available resources declined to USD 40 million from USD 88 million, the program's exposure to this risk remains **High**.

Implementation Risk

- “The risk that, after a project becomes effective, it is not implemented in a timely manner”
- The CIF AU flags a project for implementation risk if the project meets at least one of the following two criteria.
 - I. The project has been Effective for 36 months, but has disbursed < 20% of approved funds.
 - II. The project is within 15 months of Closing (i.e. the date by which all of the CIF program/subprogram’s funds are to be disbursed), but has disbursed < 50% of approved funds.
- FIP’s risk score for implementation risk remains **Medium**.

Implementation Risk – Projects flagged under first Criterion

Changes since June 30, 2017:

- Since December 31, 2017 disbursements have increased for the projects which were flagged, and no projects are flagged at this time
- 1 project USD 16M as of June 30

Implementation Risk – Projects flagged under second Criterion

Changes since June 30, 2017:

- 2 projects vs. 1 as of June 30, 2017
- USD 28M vs. USD 16M as of June 30

Project Title	Country	MDB	MDB Approved Funding	Cumulative disbursement (as of Dec 2017)	% Disbursed	Final Disbursement Date	Months Until Final Disbursement Date
Gazetted Forests Participatory Management Project for REDD+ (PGFC/REDD+)	Burkina Faso	AFDB	11.50	4.26	37%	6/30/2018	6.0
Forest Information to Support Public and Private Sectors in Management Initiatives	Brazil	IDB	16.45	1.81	11%	12/18/2018	11.7

Currency Risk

Currency Risk exposure remains **High**.

- Between September 30, 2017 and March 31, 2018, the GBP appreciated 4.6% against the USD.
- Unrealized decline in the value of the outstanding promissory notes decreased to USD 25 million from USD 37 million.

Currency Risk Exposure (Millions) as of March 31, 2018							
Program/ Subprogram	Original Amount Pledged/ Received	Pledged Amount Outstanding/ Unencashed	Realized Currency Gain/ (Loss)	Unrealized Currency Gain/ (Loss)	Risk Likelihood	Risk Severity	Risk Score
FIP	£223.0	£179.6	\$1.5	(\$25.2)	Very Likely	Moderate	High

Resource Availability Risk

Resource Risk remains **High**.

- Between September 30, 2017 and March 31, 2018, available resources increased from a deficit of USD 40 million to a deficit of USD 88 million.

Available Resources as of March 31, 2018				
Program/ Subprogram	Available Resources for Projects/Programs (\$Million)*	Risk Likelihood	Risk Severity	Risk Score
FIP (Grant)	(\$29.7)	Likely	Severe	High
FIP (Capital)	(\$10.2)			

Resource Availability Risk

The increase in available resources is primarily attributable to the following.

- I. The change in the approach for allocating administrative costs amongst the SCF programs increased grant resources by USD 29 million.
- II. Appreciation of the GBP increased the value of the unencashed promissory notes by USD 12 million capital resources.

3. Next Steps

1. Formally propose risk tolerance levels for SC approval
2. Begin reporting Credit Risk exposure
3. Investigate reporting aggregate private sector exposure to Implementation Risk
4. Investigate reporting Interest Rate Risk exposure incurred via private sector lending
5. Implement information sharing protocols and processes for Fraud Risk

Questions
