

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.10/5/Rev.1

April 19, 2013

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington D.C.
April 29-30, 2013

Agenda Item 6

ELABORATION OF AN ENTERPRISE RISK MANAGEMENT PROGRAM FOR THE CLIMATE INVESTMENT FUNDS

PROPOSED DECISION

The joint meeting of the CTF and SCF Trust Fund Committees welcomes the work that has been undertaken to elaborate an Enterprise Risk Management Program, taking into account the Enterprise Risk Management Framework approved by the joint meeting in November 2012, and approves the document CTF-SCF/TFC.10/5, *Elaboration of an Enterprise Risk Management Program for the Climate Investment Funds*, and the proposals presented therein related to managing priority risks and implementing the CIF ERM program.

More specifically, the joint meeting agrees to implement the integrated plan of recommended risk actions as elaborated in Annex D of the document and requests the CIF Administrative Unit and the MDBs to prepare an annual assessment of the ERM Program as a basis for review by the CIF committees of the effectiveness of the ERM Program, beginning in May 2014.

The joint meeting requests the CIF Administrative Unit to recruit a senior risk management officer to lead and coordinate the implementation of the ERM program, including the preparation of annual assessments, and to facilitate effective collaboration and oversight of the risks identified in the ERM program.

The joint meeting approves USD 250,000 in additional budgetary resources to be included in the administrative budget of the CIF Administrative Unit to cover the FY14 costs for the senior risk management officer.

The joint meeting requests the working group that prepared the ERM Program to continue its work to develop Tier 2 risks and other risks identified by the joint meeting for review in conjunction with the first assessment of the ERM Program in May 2014 with a view to including action on additional risks in the ERM Program. The senior risk management officer is requested to coordinate the work of the working group.

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Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
ALM	Asset - Liability Management
CIF	Climate Investment Funds (Comprised of Clean Technology Fund and Strategic Climate Fund)
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CTF	Clean Technology Fund
EBRD	European Bank for Reconstruction and Development
ERM	Enterprise Risk Management
FIF	Financial Intermediary Fund
FIP	Forest Investment Program
FPA	Financial Procedures Agreement
FY	Fiscal Year
GEMs	Global Emerging Markets Risk Database
GHG	Greenhouse Gas
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IP	Investment Plan
ISO	International Standards Organization
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
PPCR	Pilot Program for Climate Resilience
RFP	Request for Proposal
SCF	Strategic Climate Fund
SREP	Scaling Up Renewable Energy Program
TFC	Trust Fund Committee
USD	United States Dollars
WBG	World Bank Group

I. Introduction

1. This Climate Investment Funds (CIF) Enterprise Risk Management (ERM) paper is based on the work of the CIF ERM working group (“Working Group”), as requested at the November 2012 joint meeting of the Clean Technology Fund (CTF) and Strategic Climate Fund Trust Fund (SCF) Committees. Booz Allen Hamilton (Booz Allen) was recruited by the CIF to lead the preparation of the paper and serve as an advisor to the Working Group. This report is for review and approval by the April 2013 joint meeting of the CTF and SCF Committees. The report is composed of six sections. Following the introduction, Section II provides the relevant background of the CIF ERM Framework. Section III describes the methodology and approach used by the ERM Working Group. Sections IV and V provide a summary and detailed analysis of the seven risks identified by the Working Group. Finally, Section VI addresses the way forward for implementing a CIF ERM Program.

II. Background

2. The CIF, comprised of two funds, the CTF and the SCF, was approved by the Board of Directors of the World Bank on July 1, 2008. To date, donors have pledged over US \$7 billion to the funds. The CIF is an important new source of funding through which five Multi-lateral Development Banks (MDBs) provide additional grants and concessional financing to developing countries to address urgent climate change challenges. These five MDBs are the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the World Bank Group.

3. The CTF provides scaled-up financing to contribute to the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas (GHG) emissions savings. The SCF funds the piloting of new development approaches. These include the scale-up of activities aimed at a specific climate change challenge, a sectorial response in the areas of climate resilience (the Pilot Program for Climate Resilience, or PPCR), sustainable management of forests to reduce deforestation and forest degradation management (the Forest Investment Program, or FIP), and scaling up renewable energy in low income countries (the Program for Scaling up Renewable Energy in Low Income Countries, or SREP).

4. CIF financial support, which is provided through diverse financing tools such as grants, credits, loans, and guarantees, are backed by voluntary contributions from countries in the form of grants, capital, and loan contributions.¹

5. As noted above, the CIF funds are disbursed through MDBs to support effective and flexible implementation of country-led programs and investments. One of the underlying principles of this structure is that each MDB uses its own policies and procedures (including procurement of goods and services and reporting arrangements) in carrying out its responsibility for the use of funds transferred to it. The World Bank serves as the Trustee of the CIF Trust Funds and also as the host of the CIF Administrative Unit.

¹ Loan contributions are only allowed under the CTF.

6. In May 2012, the Committees requested the CIF Administrative Unit and the Trustee, in collaboration with the MDB Committee, to prepare a proposal for a financial risk monitoring and management framework for the CTF and the SCF programs. In response to this request, the Trustee engaged Booz Allen to develop an ERM framework.²

7. At its meeting in November 2012, the Committees agreed to establish a CIF ERM Framework and called for a Working Group comprised of representatives from the CIF Administrative Unit, risk management specialists from the MDBs, the Trustee and an independent risk management specialist to:

- (i) identify priority risks to be addressed under the risk management framework;
- (ii) clarify what information is currently being gathered to manage those risks;
- (iii) undertake consultations with all interested members of the CTF and SCF TFCs to ascertain their risk sensitivities;
- (iv) recommend at which level of the CIF such risks should best be monitored and managed; and
- (v) prepare recommendations, for review and approval by the joint meeting, as to which risks should be a priority focus and the way forward for implementing a risk management framework.

8. The Working Group, as instructed by the joint meeting of the CTF and SCF Trust Fund Committees (“Joint Meeting”), developed a draft set of risks to be considered as priority (Tier 1) and subsequently conducted consultations with interested members of the Joint Meeting. The Working Group then analyzed the risks and developed a way forward for implementing the Tier 1 ERM Program.³

III. Methodology

9. Underpinning the work of the ERM Working Group is the approved CIF ERM Framework (“the Framework”) presented at the November 2012 Joint Meeting and included in Annex A.⁴ This Framework was based on best practices from the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the International Standards Organization (ISO) and the World Bank Group. The Framework includes steps to identify events or circumstances that could impact the CIF’s ability to meet its strategic objectives, assess these situations in terms of likelihood and magnitude of impact, determine a response strategy, and develop a proposed reporting and communication process.⁵

² Summary of the Co-Chairs Joint Meeting of the CTF and SCF Trust Fund Committees, November 2, 2012.

³ Tier 2 risks will be addresses after Tier 1 risks.

⁴ CTF-SCF/TFC.9/9 Enterprise Risk Management Framework for the Climate Investment Funds.

⁵ Refer to Annex E for the standard risk definitions and the laymen’s terms used by the Working Group.

10. The Working Group recommended a holistic CIF ERM Program, consisting of three levels, as depicted in Figure 1. Risk governance, oversight, and ownership are at the top of the structure and driven by the CIF Governance Committees (“Committees”). Based on this framework and methodology, the Committees will identify the top risks and specific tolerances for each risk on an annual basis.⁶ Best practices for ERM reveal that entities that achieve their objectives do so under an umbrella of strong governance. Governance and risk management are high-priority issues that are woven into the fabric of the entity. It is also their responsibility to report on the effectiveness of risk management activities. Additionally, it is necessary to clearly define and delineate risk management roles, responsibilities, and authority.⁷

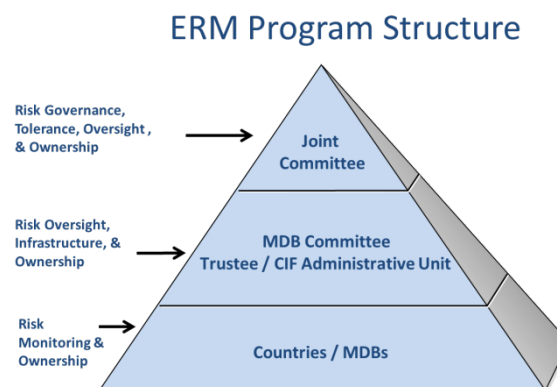


Figure 1

11. In the middle tier of the pyramid in Figure 1, the MDB Committee, CIF Administrative Unit and the Trustee also have specific responsibilities. The MDB Committee serves as a forum to ensure effective operational coordination and MDB harmonization. Chaired by the CIF Administrative Unit, it provides pipeline oversight, makes recommendations on the activity cycle for approval by the CTF / SCF Committees, and monitors progress in the implementation of CIF programs. The CIF Administrative Unit and the Trustee provide the infrastructure of the CIF ERM program. Their primary responsibilities are designing, implementing, and maintaining capabilities, and providing guidance to countries and MDBs as needed. This shared risk management infrastructure supports the CIF governance structure by enabling a systematic process and ownership of day-to-day risks associated with implementing the CIF programs/projects.

12. The MDBs and countries, the lower tier of the pyramid, are responsible for evaluation and management of program/project level risk at the country level, including providing the Committees with adequate information to ensure that the CIF portfolio is managed efficiently.

13. In preparation for this report, the Working Group convened in Washington, DC to review a preliminary list of risks to: (i) identify the priority risks, (ii) discuss the risk context, (iii) discuss the events that could trigger these risks, and (iv) determine the probability of occurrence and impact of the risks.⁸ Following consultations at the Joint Meeting, the Working

⁶ Tolerance is defined as the level of exposure to the occurrence of a risk event than an entity is willing to accept when pursuing its objectives.

⁷ This may require amendments to the existing governance document.

⁸ Reflecting the Working Group composition (a mixture of risk, financial, and strategic experts), the Working Group decided to translate the technical risk terms into explanatory terms to facilitate the understanding of the process with all Working Group members and the Committees (see Annex F for a detailed list of ERM and risk terms and definitions).

Group met a second time to incorporate their comments and finalize the Tier 1 risks. During this second session, the Working Group also identified current management approaches that address the Tier 1 risks, recommended risk actions to effectively manage these risks, and determined how best to operationalize enhancements to the existing reporting and communication processes.

IV. Risk Analysis Summary

14. The Working Group, in consultation with the Joint Meeting, identified seven Tier 1 risks faced by the CIF. These risks, along with seven secondary risks, emerged from the initial analysis performed by Booz Allen. It is recommended that the Tier 1 risks be addressed by the Committees as a first priority. The secondary risks were seen as important, but not an immediate priority for the CIF. In developing a sustainable risk framework for the CIF, the Working Group took into account the challenges of coordinating CIF risk actions with the existing risk frameworks of five MDBs, which have their own processes, procedures and risk frameworks in place. The Working Group recommended risk actions for the Tier 1 risks that could be implemented within 6 to 12 months.

15. In order to move forward on the CIF ERM Program, the Joint Meeting must agree on: (i) a final list of Tier 1 risks, (ii) tolerances and thresholds for each risk, and (iii) the action plan for each risk as presented in this paper. The Tier 1 risks are summarized below in Table 1. Two critical components in implementing a CIF ERM Program that will enhance the CIF's ability to analyze and communicate the health of the Funds (strategic, financial and operational) include:

- An annual assessment of the ERM Program.
- An integrated plan to implement the Recommended Risk Actions, which will enhance the CIF Administrative Unit and Trustee's ability to communicate the health of the Funds (strategic, financial and operational) to the Committees to facilitate risk informed decisions. Section VI summarizes the tasks needed to operationalize the recommended Tier 1 Risk Actions and the proposed reporting and communication process. Most of the recommended actions can be implemented in six months assuming appropriate resourcing and participation.

Table 1: CIF ERM Tier 1 Risks

CIF Tier 1 risks: Implementing the Tier 1 ERM Program leverages existing risk mitigation processes in the MDBs; the current assessment shows that the program can be operationalized in 6 to 12 months.

Risk 1: Committees may not make risk informed decisions

- If quality and complete information is not provided to support oversight of the CIF in a timely manner, the Committees risk making poorly informed decisions. As a consequence, the CIF could fail to achieve its objectives.
- Lack of an integrated portfolio overview was identified as a risk in the context of the Committees not having a portfolio view of the strategic, financial and operational status, which would enhance its ability to make effective decisions and provide integrated portfolio information.

Risk 2: Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF)

- This risk may arise if there is no continued oversight of an investment plan (IP) after it is approved and there are no requirements to monitor and measure the programmatic achievements of the IP. As a consequence, an IP could fail to achieve its programmatic objective.

Risk 3: Suboptimal use of CIF funds

- This risk relates to projects in the pipeline for which resources have been allocated that are not advancing in accordance with agreed milestones. As a result, resources are reserved for projects that are delayed which could be used for implementation ready projects.

Risk 4: Portfolio losses exceed tolerances

- This risk may arise due to a lack of systematic monitoring and reporting of threshold breaches. This risk has three key attributes: (i) losses to the CIF related to project lending—loan non-repayment and calls on guarantees; (ii) losses related to the investment portfolio managed by the Trustee; and (iii) losses associated with local currency lending.

Risk 5: Asset - Liability Mismanagement

- This risk occurs when the level of liquidity and or reserves are inadequate or fall below the minimum requirements. This results in the Trustee's inability to meet loan contributor contractual obligations (interest and principal payments), or obligations to MDBs.

Risk 6: Misuse of funds or other problems with project implementation

- This risk arises due to a lack of a systematic process for reporting incidences of misuse of funds. This results in the Committee's inability to effectively respond to such an event.

Risk 7: Misalignment between sources and uses of funding

- This risk relates to the MDB providing the CIF Administrative Unit and the Trustee with the expected category of financial product (soft vs. hard credit / grant) at the upstream portfolio planning phase. This may result in a breach of the funding limit rule or cause a later stage project renegotiation.

16. An emerging trend across the Tier 1 risks is that information is variously: (i) suboptimal in terms of reporting standards, (ii) missing, and (iii) scattered across multiple channels and not transparent. This situation hinders efficient decision-making about how funds could best be utilized (for instance, the use of local currency lending in CIF funded projects). An improved process for reporting and increased access to information would enable the Committees to move toward 'risk-informed' decisions.

17. To facilitate the Working Group analysis and consultations with the Committees, as discussed in the CIF Enterprise Risk Management Assessment Paper, the Working Group categorized the CIF risks into three conventional areas - Strategic, Financial and Operational (see Figure 2). Strategic risks focus on how to meet the CIF programmatic objectives. Strategic risk management provides a systematic approach to manage risks, communicate to the Committees, and provides an approach to take advantage of opportunities related to the achievement of the CIF mission and strategic objectives. Financial risks focus on quantitative risks such as portfolio losses related to loans and Asset - Liability Management (ALM). Operational risks focus on the risk of loss resulting from inadequate or failed processes, personnel, and systems. Operational risk management ensures alignment of the Fund's operational policies with its strategic framework and provides guidelines for its activities.

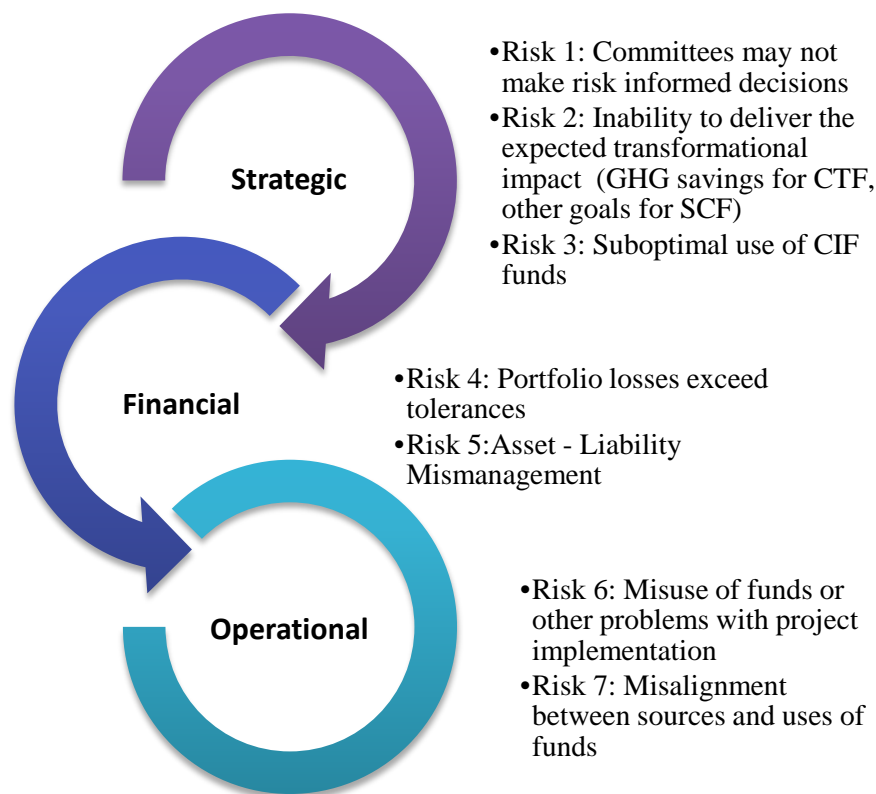


Figure 2

V. Tier 1 Detailed Risk Analysis

18. The Working Group, in consultation with the Committees, identified Tier 1 risks using the CIF Enterprise Risk Management Framework assessment process of identifying the probability and impact of each risk. This section presents the evaluation of the Tier 1 risks. The risks were ranked based on the probability and impact identified by the Working Group.

19. The following sections present each risk from four perspectives, including a description of the risk, risk context and tolerances, and recommended risk management actions. The fourth perspective is a proposed reporting and communication process for each risk.

Strategic Risks

20. This section focuses on how to meet the CIF programmatic objectives. Strategic risk management provides a systematic approach to manage risks, communicate to the Committees, and provides an approach to take advantage of opportunities related to the achievement of the CIF mission and strategic objectives. The key is to identify the strategically relevant information versus a summary of project details. The three strategic risks discussed below are deemed to be a priority for action within the next twelve months:

- *Committees may not make risk informed decisions:* If quality and complete information is not provided to support oversight of the CIF, the Committees risk making poorly informed decisions. As a consequence, the CIF could fail to achieve its objectives. Lack of an integrated portfolio overview was identified in the context of the Committees not having a portfolio view of the Funds' financial status, status of the program in terms of meeting the Funds strategic goals and an understanding of key operational areas, which would enhance its ability to make more effective decisions and provide Fund health information to governments. As stated above the key is providing the relevant portfolio information (programmatic, financial and operational) that is needed by the Committees to make risk informed strategic fund decisions.
- *Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF):* This risk may arise if there is no continued oversight of the IP after it is approved and further there are no requirements to monitor and measure the programmatic achievements of the IP.
- *Suboptimal use of funds:* This risk relates to projects in the pipeline for which resources have been allocated that are not advancing in accordance with agreed milestones. As a result, resources are reserved for a project that is delayed which could be used for implementation ready projects.

21. To address the three strategic risks described in this section, the ERM Working Group recommends the following:

- Develop and communicate semiannually to the Committees an integrated portfolio summary including financial, pipeline, and risk information.

- Ensure sufficient transparency is in place at the project level so that the CIF Administrative Unit has information to provide timely analysis and solutions to address barriers and challenges across the overall CIF portfolio. By ensuring the enhanced quality of information is provided by MDBs *and establishing an integrated (pipeline and financial) portfolio risk analysis, the Committees can enhance the CIF oversight and make risk informed decisions concerning the achievement of the Fund's strategic objectives.*
- Facilitate improved communication from countries and MDBs about programmatic information related to achievement of objectives addressed in the IP. Annex B presents a conceptual design of the recommended CIF Portfolio Dashboard which will enhance the communication of CIF portfolio health to the Committees.
- Ensure that quality information is communicated to the CIF Administrative Unit and Trustee throughout the lifecycle of the CIF. In addition, the ERM Working Group stressed the importance of setting realistic expectations during country program planning and revising the existing programming model for engaging the private sector to better align with market opportunities.

1 Committees may not make risk informed decisions

22. Residual Risk (Risk Description): This risk arises if: (i) quality and complete information is not provided to support oversight of the CIF in a timely manner, preventing the Committees from making risk informed decisions; and (ii) and the Committees lack access to integrated portfolio information (strategic, financial and operational) in order to make more informed decisions (e.g. the Committees do not have the portfolio view of impacts of local currency loans and therefore have not be able to determine the best course of action on local currency loans). As a consequence, the Committees may not be able to efficiently exercise the oversight role and risks may result in reputational impact to the Committees, MDBs and the overall CIF initiative. Additionally, the CIF may not be unable to achieve its objectives, including loan dissemination, lessons learned, and transparency.⁹

23. Risk Context with Tolerances: The Working Group identified this risk in the context of an existing need for enhanced quality of information from the MDBs, including: an integrated (pipeline and financial) portfolio risk analysis, and reporting and communication to support CIF oversight and Committees' ability to make risk informed decisions. The analysis of existing information collection tools used for management of project pipeline demonstrates that while most necessary processes are in place for tracking and analysis of project approval progress, the need for enhanced MDB information (quality and completeness) presents challenges. Furthermore, while pipeline information is collected at an individual project level and analyzed using the CIF traffic light system, this system does not call attention to specific

⁹ See Annex B for illustrative CIF ERM Enterprise Portfolio Risk dashboard.

pipeline backlogs at country / portfolio level. This information could be useful in identifying regional or sectorial trends. It also does not include an explanation from MDBs, on a consistent basis, that identifies the reasons behind project delays and the proposed actions to address those delays. As a result, the quality and flow of project pipeline information impacts the Committees' ability to make risk informed decisions and provide strategic oversight/governance of the overall portfolio, which in turn may cause the risk of reputational impact to the CIF (both the Committees (including the trust fund and the MDB committees) and the MDBs). The Working Group stressed the need for project level transparency so that the CIF Administrative Unit has sufficient information to provide for *timely analysis and solutions to address any barriers or challenges*.

24. Tolerances to Date: UK – Low; Germany – Low; Spain – NA; Canada - Low; US – Low.

25. In addition, a risk was identified in the context of the Committees not having a portfolio view of the strategic, financial and operational status, which would enhance its ability to make effective decisions and provide integrated portfolio information.

26. Events (Risk Triggers): The specific events that serve as triggers for the occurrence of this risk include:

- Inconsistent quality and completeness of project pipeline information provided by the MDBs needed to depict a realistic portfolio overview.
- Delays in information shared by MDBs regarding the project pipeline.
- Annual or semi-annual Committees risk assessments that result in the need for enhancements or changes to the financial information submitted by the Trustee. In addition, specific events may occur that require additional/enhanced financial information.

27. Risk Response (Recommended Risk Actions): To address this risk as part of the Tier 1 ERM Implementation program, the ERM Working Group recommends the following proposed actions with responsible parties taking charge of the implementation of each proposed risk action:

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ Committees	Agree on tolerance needed to ensure provision of timely and accurate information. Use the enhanced portfolio information to make timely decisions.
➤ MDB	Enhance the quality of the information (for example, higher quality milestone dates, identifying reasons behind project delays and proposed action to address those delays). Create sector based profiles (timelines and disbursement patterns) for use by the CIF Administrative Unit to communicate to the Committees.
➤ CIF Administrative	Enhance MDB pipeline template and current CIF Administrative Unit traffic light system tool with additional information needed, for example action plan for addressing

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
Unit	project delays, estimated term type (soft/hard). Enhance reporting and communication on project milestones for the traffic light system monitoring tool. Establish triggers to alert MDBs for additional input, if insufficient information is provided. Enhance portfolio analysis and include portfolio dashboards provided to VPs of MDBs on a quarterly basis and to the MDB Committee in quarterly pipeline meetings to support a more robust management of the CIF pipeline.
➤ CIF Administrative Unit/Trustee	Develop integrated portfolio reporting for each program (CTF, PPCR, FIP, & SREP) that provides timely pipeline, financial and risk information to enhance overall portfolio analysis and reduce information redundancy and reconciliation. (See Annex B for a conceptual design of CIF Portfolio Dashboard).

28. Monitor and Report (Proposed Reporting and Communication Process): Critical components of the new reporting and communication process includes: (i) an enhanced pipeline reporting and analysis process (note that this process has already been initiated by the CIF Administrative Unit); (ii) an enhanced Trustee financial reporting and analysis process; and (iii) providing timely information to the Committees for use in making risk informed decisions.

29. The proposed plan to enhance the current CIF Administrative Unit process in analyzing the health of the Funds and reporting pipeline information and an assessment of whether the implemented risk actions have mitigated risks effectively. The enhanced integrated portfolio analysis and reporting process includes the following steps:

- CIF Administrative Unit provides a new pipeline information template to MDBs;
- MDBs submit enhanced pipeline information.
- CIF Administrative Unit reviews pipeline information and alerts MDB of missing or suboptimal information.
- CIF Administrative Unit enters project pipeline information into the integrated CIF database (containing both financial and pipeline information).
- CIF Administrative Unit compiles and analyzes portfolio pipeline.
- CIF Administrative Unit creates portfolio pipeline information, reports and dashboards and submits to MDB Committee for the quarterly MDB pipeline meeting.
- MDB Committee reviews pipeline portfolio reports and determines required actions.
- CIF Administrative Unit creates portfolio pipeline information, reports and dashboards and submits to the CIF committees (CTF, FIP, PPCR, and SREP) for semiannual meetings.

30. The proposed plan for enhancing the current CIF Trustee process in analyzing the financial health of the Funds includes:

- MDB provides financial information to the Trustee.
- Trustee analyzes financial health of the Fund using the existing and enhanced analysis tools.
- Trustee incorporates in its current report the portfolio view of the financial status of the fund in collaboration with the CIF Administrative Unit. In addition, the financial health

status will be merged with the CIF Administrative Unit Strategic and Operational Fund portfolio annual report to provide a consolidated report to the Committees.

31. The CIF Administrative Unit and the Trustee will work with the Committees to determine the reporting frequency for each component of the pipeline, financial and risk information.

2

Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF)

32. **Residual Risk (Risk Description):** This risk may arise if there is no continued oversight of an IP after it is approved. Additionally, if there are no requirements to monitor and measure the programmatic achievements of an IP. As a consequence, an IP could fail to achieve its programmatic objective.

33. **Risk Context with Tolerances:** The CIF programmatic approach is based on country IPs that aim to finance investments that together serve to address the strategic goals of each CIF program. IPs are integrated with national goals and undertaken jointly by the recipients, the MDBs, private sector, and civil society to serve as a programmatic framework for a given sectorial or thematic area of intervention. The risk of not achieving the intended programmatic approach for CIF was raised in the context of lessons learned obtained while implementing projects.

34. **Tolerances to Date:** UK – Low; Germany – Low; Spain – NA; Canada - Low; US – Low.

35. **Event (Risk Triggers):** The specific events that serve as triggers for the occurrence of this risk include:

- Lack of continued country ownership and programmatic oversight after approval of IPs.
- Inability to capture the broader impact of projects and synergies.
- Difficulties in encouraging or catalyzing subsequent investments after the CTF intervention.

36. **Recommended Risk Actions:** To address this risk, the ERM Working Group recommends the following actions with responsible parties taking charge of the implementation of each proposed risk action:

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ CIF Administrative Unit	Prepare informational reports, using quality information provided by MDBs, on the portfolio and develop specific analysis and provide synthesis of information for each CIF program fund using the January 14, 2013 Revised Results Framework.

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ Country/Lead MDB	<p>The country, working with the lead MDB, should be supported and held accountable for continued oversight and reporting on the progress in achieving programmatic objectives throughout the program lifecycle.¹⁰ As agreed in May 2012, convene regular (every 1 or 2 years) stakeholder forums on the CIF funded programs to review programs against the CIF result framework, learn from experience, identify areas where better coordination is required to maximize synergies and keep the programmatic focus on track.</p> <p>For countries that are revising IPs, incorporate steps to maintain the programmatic approach moving forward.</p> <p>For countries that are not revising IPs, convene discussions on progress made to date towards programmatic results and agree on appropriate actions.</p>
➤ The countries, MDBs and the CIF Administrative Unit	<p>The countries, MDBs and the CIF Administrative Unit should integrate these recommended risk response actions into the operationalization of the CIF Results Frameworks. This will include annual reporting from the country and MDB to the CIF Administrative Unit on the status of the program in each country. The CIF Administrative Unit will need to compile the country program reports into a comprehensive overview on the “health” of the four CIF programs for review by the Committees.</p>

37. Monitor and Report (Proposed Reporting and Communication Process): A critical component of the Tier 1 ERM Program implementation includes the proposed plan (below) to enhance the current CIF Administrative Unit process in analyzing the health of the Funds. This will aid the reporting of pipeline information and provide an assessment of whether the implemented risk actions effectively mitigated the risk:

- Lead MDB (which will require, at least at the MDB Committee level, clarity on who is the lead MDB) consults with the country and other MDBs on an annual basis to monitor and report the progress at the program level based on the revised results framework;
- Lead MDB reports progress on an annual basis to the CIF Administrative Unit on the status of the program in each country.
- The CIF Administrative Unit will need to compile the country program reports into a comprehensive overview on the “health” of the four CIF programs for review by the Committees.¹¹ The analysis should have proactive triggers and use project type profiles to identify areas that are in danger of not meeting the programmatic objectives.
- Committees review the reports and make risk informed decisions.

¹⁰ The lead MDB role was introduced after the CTF and PPCR were already under implementation. Therefore, there is no agreement as yet on who is the lead MDB for these programs in certain regions.

¹¹ See Annex C for a conceptual design of CIF Portfolio Dashboard.

3 Suboptimal use of CIF funds

38. Residual Risk (Risk Description): This risk relates to projects in the pipeline for which resources have been allocated that are not advancing in accordance with established milestones. As a result, resources are reserved for projects that are not progressing, which could be used for implementation ready projects. This risk has four key attributes:

- (i) there is a sense that there are unrealistic expectations about the ability of the CIF to deliver against the agreed IPs;
- (ii) projects in the pipeline for which resources have been allocated are not advancing in accordance with the established milestones, thereby tying up funds which could be allocated for the development of projects that are ready to implement;
- (iii) there are limitations in the oversight and understanding by the Committees as to the barriers and delays to project development and implementation, which is aggravated if there is not comprehensive, quality information (more realistic pipeline dates, informative status reports and more detail justifications for delays) provided by MDBs in the pipeline reports;
- (iv) current programming model of country-based programs may not be optimal for engaging the private sector.¹² Engaging the private sector and promoting markets may require a more flexible approach that would allow investments where opportunities exist as opposed to limiting investments to individual countries with CIF IPs; and
- (v) for projects that do not require the degree of concessionality that is negotiated to go forward, this excessive concessionality may significantly hamper the overall effectiveness of the CIF while leading to unwanted market distortions and crowding out of other public and private investors.

39. Risk Context with Tolerances: The CIF funds are committed and disbursed using a clear decision-making process. As discussed by the ERM Working Group, the risk of sub-optimal use of funds can occur at any of the following stages:

- The approval of IPs when Committee member expectations are set through a discussion on the proposed level, timing, and application of funds by country.
- Approval of commitment of funds by the relevant Committee to specific projects. Once committed for specific projects, funds are no longer available for other purposes.
- Approval by MDBs of specific projects, with disbursement milestones.
- Start of project implementation and disbursements phases.
- Completion of disbursements.

40. Tolerances to Date: UK – Moderate; Germany – Moderate; Canada - Low; US – Low.

41. Event (Risk Triggers): The specific events that serve as triggers for the occurrence of this risk include:

¹² Many of the CTF IPs are currently being updated to present more realistic plans using the lessons learned over the last four years. For other programs, IPs will be reviewed if all project funding has not been committed within eighteen months of endorsement.

- Tracking project progress against unrealistic deliverable milestones.
- Lack of quality information associated with project delays.
- Use of current programming model for engaging the private sector.¹³

42. **Risk Response (Recommended Risk Actions):** To address this risk as part of the Tier 1 ERM Implementation program, the ERM Working Group recommends the following proposed actions with responsible parties taking charge of the implementation of each proposed risk action:

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ CIF Administrative Unit / MDBs	Enhance and integrate dashboards to MDBs on a quarterly basis and on a semiannual basis to the Committees.
➤ Committees	Seek Committees approval for over-programming policy and process. ¹⁴
➤ Committees	Analyze and define the impact of inefficient allocation of funds that may result in excessive concessionality.
➤ MDB Committee	Develop profile baselines (i.e. timelines and disbursement patterns). ¹⁵
➤ CIF Administrative Unit / MDBs	Operationalize the above risk actions.

43. **Monitor and Report (Proposed Reporting and Communication Process):** A critical component of the Tier 1 ERM Program implementation includes the proposed plan for reporting and communication process below. However, there needs to be a balance between keeping momentum and allowing space for complex projects. More realistic forecasts will enable flexibility for the TFC to reallocate within an IP:

- Enhance and integrate semi-annual dashboards to MDB VPs and MDB Committee on a quarterly basis and semi-annually to the trust fund Committees.
- Over-programming - as part of pipeline management, merge the tranche one and tranche two funding to allow for approval of additional counties IPs.
- Automate existing traffic light system with additional indicators that have been approved.
- Give further consideration to the action(s) to be taken if the milestones are missed.

¹³ Specific triggers need to be developed that would signal that the private sector projects are less prominent / disadvantaged compared to public sector.

¹⁴ Over-programming consists of approving more programs and projects at the portfolio / IP level.

¹⁵ Some MDBs noted that disbursement profiles have been previously discussed and would not add value.

Financial Risks

44. The ERM Working Group identified two primary financial risks: Risk 4, portfolio losses that exceed tolerances and Risk 6, Asset - Liability Mismanagement. The Working Group analyzed these risks and recommends the following enhancements to the existing reporting and communication processes: (i) communicate on a periodic basis the existing financial controls in place, and (ii) develop a portfolio view of the financial health of the CIF.

45. One of the key differences between the CTF Trust Fund and the SCF Trust Fund is that the CTF Trust Fund allows for loan contributions in addition to grant and capital contributions. Thus, the CTF Trust Fund has liabilities to loan contributors and must meet semi-annual debt service obligations, which is not the case for the SCF Trust Fund. Given this fundamental difference between the two Trust Funds, different financial risk management and monitoring measures have been in place for each of the CIF Trust Funds. For instance, in the CTF Trust Fund, the following risk monitoring measures have been put in place:

- (i) maintaining a minimum liquidity reserve in order to ensure debt service payments to loan contributors can be met;
- (ii) preparing quarterly projections on project repayments and possible loan loss rate scenarios on the overall portfolio to monitor the ability of the CTF Trust Fund to cover debt service payments to loan contributors;
- (iii) simulating the loan loss/default sharing mechanism to determine the overall impact on the loan payout to loan contributors; and
- (iv) keeping track of actual project interest rates to ensure that within the aggregate amount that is on-lent, there is at least an amount equal to the incoming loan contributions that is on-lent at equal or less concessional terms. None of these measures are critical to the financial management and risk monitoring of the SCF Trust Fund. Nonetheless, standard Trustee financial management and risk monitoring processes related to, but not limited to, investment management and liquidity management apply to both CTF and the SCF.

4 Portfolio losses exceed tolerances

46. Residual Risk (Risk Description): This risk may arise due to lack of systematic monitoring and reporting of threshold breaches. This risk can arise from two primary sources: (i.) losses to the CIF related to project lending (loan non-repayment and calls on guarantees paid but not recovered); (ii.) losses related to the investment portfolio managed by the Trustee and (iii.) losses associated with exchange rate fluctuations during the term of local currency lending (see risk 5 Asset-Liability Mismanagement).

47. Losses related to project lending can be caused by:
- ✓ Credit/default risk (incl. private/sovereign default)
 - ✓ Political (incl. regulatory/political risk)
 - ✓ Market risk (incl. interest, currency, commodity risks)

✓ New instruments risk (incl. use of complex new instruments)

- Credit/ default risk arises whenever a borrower (either public or private) is expecting to use future cash flows to pay a current debt. In the case of public sector loans that have sovereign guarantees, credit risk is analogous to sovereign risk. Due to lack of country level data, the Working Group identified Global Emerging Markets database (GEMs) as a reference for inferring country risks using average regional data.
- Political risk (including breach of contract) relates to the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation due to changes in political and regulatory environment at country level.
- Market risk relates to risks arising from changes in interest rate, foreign exchange rates and commodity pricing (note foreign exchange risk is presented as a part of the ALM risk).
- New instruments risk relates to risks arising from implementation of new and complex instruments in the CIF portfolio.

48. Losses related to the investment portfolio managed by the Trustee. The CIF investment portfolio is subject to the General Investment Authorizations of IBRD and IDA, which authorizes IBRD and IDA to enter into a specific set of market transactions, both for their own portfolios and for funds managed on behalf of others (including the CIF). Engaging in investment transactions for CIF beyond those expressly authorized in the IBRD and IDA General Investment Authorizations, including investments in public developed market equities, is allowed only upon explicit instructions from the Committees.¹⁶

49. Risk Context with Tolerances: The CIF is meant to provide concessional loans / grants to countries that are existing shareholders and potential borrowers of the MDBs.¹⁷ The CIF was organized to leverage the MDBs' financial risk mitigation strategies and processes. The MDBs and Trustee have extensive processes and controls that manage financial risks. For example, CIF assets are held by the World Bank in its capacity as Trustee and undisbursed resources are invested following World Bank investment guidelines. In addition, the MDBs use their own country risk management processes to evaluate projects.

50. For public sector loans, CIF has established two levels of concessional loan terms that may be proposed by projects regardless of country ratings. CIF already accepts some risk for public sector. For private sector loans, the loan terms are negotiated on a case by case basis using existing MDB processes and the rules and procedures established for the CIF.

51. One of the basic principles of lending is that there may be losses. However, the Committee members need to reach a consensus on the quantitative threshold for which losses would not be tolerated. The CIF expects the Trustee to regularly inform the Committee of the

¹⁶ Reference "CIF Trust Funds: Participation in a New Investment Tranche", CTF-SCF/TFC.7/5/Rev.1, dated October 27, 2011.

¹⁷ The U.S. position on the portfolio loss exceed tolerances risk is high as long as MDB has made every effort to mitigate risk under its control and expected transformational or GHG impact is high; U.S. tolerance toward poor investment structuring is low.

existing arrears on disbursed loans and loan defaults as they occur, and as reported by MDBs, and monitor the minimum threshold level for possible breaches. The critical step to perform this function is the establishment and maintenance of a basic financial risk management system, including the portfolio cash flow model. Currently the CTF cash flow model, managed by the Trustee, includes assumptions on loss rates developed based on informal consultations between the Trustee, several Committees members, and MDBs. One of the key outputs of the CTF cash flow model is whether the projected CTF net income is adequate to cover projected loan defaults and losses on CTF loans up to the informally established threshold.¹⁸ The Trustee should consider developing a cash flow model for the SCF fund.

52. Tolerances to Date: UK – High; Germany – Low; Spain – Low; Canada - Moderate (two different comments one high and one low); US – High.

53. Event (Risk Triggers): [Data indicators, priorities and tolerances levels will be defined for each risk category as in aggregate]

- Losses reported by MDBs to the Trustee related to project lending (e.g. arrears or local currency lending).
- Losses related to investment portfolio managed by Trustee.
- Insufficient investment income to cover losses.

54. Risk Response (Recommended Risk Actions):

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ Committees	Committees provide specific total loss tolerance (specific benchmarks).
➤ Working Group/ Trustee	Trustee continues its current risk management processes. In collaboration with the Working Group, the Trustee enhances the financial analysis and incorporates agreed recommendations (see Annex B: Sample CIF Portfolio Dashboard).
➤ Trustee	Trustee enhances its IT platform to store reported arrears and loan defaults and integrate with the CTF cash flow model. Increase frequency of reporting key financial / risk portfolio information to the Committees. See Annex B for representative CIF ERM Enterprise Portfolio Risk dashboard. Trustee to develop a cash flow model for the SCF.
➤ Committees	Committees annually review aggregate weighted average portfolio credit rating to access overall portfolio credit risk.
➤ MDB committee/ Working Group	MDB committee would review CIF concessional loan rates in comparison with the concessional loan rates of other similar IFIs, grant element, [market, country needs], etc., to determine if CIF concessional loan rates need to be adjusted.
➤ Trustee	(Investment) The Trustee continues to follow a conservative investment strategy in line with World bank guidelines.

¹⁸ The current loan loss rate used for IDA credits based on historical performance.

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ Committees	Committees could revise its decision to not participate in a new tranche which included a limited allocation to public developed market equities in order to increase portfolio diversification.

55. Monitor and Report (Proposed Reporting and Communication Process): A critical component of the Tier 1 ERM Program implementation includes the proposed plan for reporting and communication process below:

- MDBs use financial risk mitigation strategies and processes, including sound credit risk management processes based on best practices to evaluate projects.
- MDBs reports any defaults or losses related to project lending: arrears and loan non-repayment (e.g. a call on a guarantee).
- Trustee provides status of arrears or non-repayments to the Committees;
- If there are non-repayments, the Trustee will provide analysis of cash flows and projected losses of the Contributors to the Committees.
- Trustee performs analysis of losses compared to tolerances and reports to Committees; also provides more timely updates to the Committees.
- Committees annually review country and company credit profiles to assess overall portfolio credit risk.
- Committees annually reviews CIF public loan terms vis-a-vis comparable terms of International Financial Institutions to determine if the loan terms need to be adjusted.
- Committees annually review loss tolerance using CIF ERM Enterprise Portfolio Risk dashboard and provides updates as needed.

5 Asset - Liability Mismanagement

56. Residual Risk (Risk Description): In the context of the CIF, Asset-Liability Mismanagement (ALM risk) is described as the risk of not having a systematic reporting mechanism to notify the Committees concerning liquidity, interest rate and foreign exchange risk management. ALM risk is composed of: (i) Liquidity risk; (ii) Interest Rate risk; and (iii) Exchange Rate risk. This risk occurs when the level of liquidity and or reserves are inadequate or fall below the minimum requirements. This results in the Trustee's inability to meet loan contributor contractual obligations (interest and principal payments) or obligations to MBDs.

57. Liquidity risk may arise when the Trustee is unable to meet loan contributor contractual obligations (interest and principal payments) or obligations to MBDs.

58. Interest Rate risk arises from the market opportunity cost and interest rate mismatch between the underlying interest rate on the asset versus the liabilities. The Committees have accepted the opportunity cost of market interest rates compared to concessional terms provided to recipients. The recipient countries and companies may not accept the interest rate provided by the CIF due to the expensive nature of the transformational technologies. This risk occurs when there is a mismatch between the interest earned on assets and the interest due on liabilities.

59. Exchange Rate risk can occur because: (i) the CIF holds non-USD promissory notes but commits to MBDs only in USDs and Euros; and (ii) USD dollars or Euros committed can be lent to recipients in local currency:

- Promissory Note: The reserve to cover the FX loss between the USD value of the promissory note at the time of commitment by the Trustee and the time of encashment is not sufficient.
- Private sector projects which require local currency loans cannot move forward because the CIF has not agreed to bear the risk of local currency loans. This may result in the following: the Funds not meeting CIF objectives (in the most efficient manner); projects cannot move forward since the CIF clients are not capable and/or willing to take the exchange risk; reputational impact.

60. Risk Context with Tolerances: The goal of ALM is to properly manage risks related to changes in interest rate, liquidity, foreign exchange and the mix of balance sheet assets and liabilities.¹⁹ ALM does not include other losses, such as credit losses.

61. Tolerances to Date: UK – High, Germany – Low; Spain – Low; Canada – (Exchange rate) Low tolerance for CTF and High tolerance for SCF; US – NA; Brazil – Low for not having local currency loans.

¹⁹ Brazil would like to indicate a low tolerance for risk regarding the reputational risk for the CIFs not willing to take the exchange risk, as this could jeopardize the CIFs mission in financing investments in developing countries. Our tolerance for the other risks associated (liquidity, interest rate) is still under assessment. In that sense, this graphic does not show very clearly countries' tolerance for the different risks involved.

62. Event (Risk Triggers):

- Liquidity:
 - The agreed encashment schedules are not being met.
 - MDBs not providing adequate / timely projections of when funds are required.
- Interest Rate:
 - Opportunity: Market rates significantly exceed CIF concessional terms to recipients.
 - Timing mismatch between the interest earned on the assets and the interest due on liabilities.
- Exchange Rate:
 - Exchange rate of promissory notes change by an amount greater than the tolerance.
 - Projects, have requested lending in local currency where the CIF bears the risk and the decision is not taken due to lack of information.

63. Risk Response (Recommended Risk Actions):

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ Trustee	(Liquidity) The Trustee enhances its existing processes and controls in place to manage liquidity risk, including: reports to track when payments are made; controls in place leveraging IBRD Controller's processes to analyze liabilities; Trustee uses cash flow model to identify any shortfalls in liquidity. If issues are identified, the Trustee alerts the Committees. The Trustee provides the Committees the status of the liquidity risk in the semi-annual Committee Trustee Report.
➤ Committees	(Interest rate/opportunity) In the context of opportunity interest rate risk - the Committees have accepted this risk as a component of its founding principles; to meet the objectives of the CIF funds, concessional loans are required.

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ Committees	<p>(Interest rate/opportunity) In November 2012, the joint meeting of the CTF and SCF Trust Fund Committees to decide on an interim measure to facilitate local currency lending in CTF and SCF private sector projects and programs pending the development of the Enterprise Risk Management Framework.</p> <p>The MDBs and Trustee has proposed the following for consideration of the Committees at the May joint meeting. The joint meeting of the CTF and SCF Trust Fund Committees welcomes the proposal related to the use of local currency loans in private sector projects and programs under the CTF Trust Fund and:</p> <p>(a) acknowledges the MDBs' request to commence negotiation with their clients on the possibility of utilizing local currency loans under CTF private sector projects and programs approved by the CTF Trust Fund Committee in the following countries for which financing agreements with clients have not yet been signed:</p> <ul style="list-style-type: none"> (i) Colombia, USD 5 million, implemented by IDB; (ii) Mexico, USD 42 million, implemented by IDB; (iii) Philippines, USD 10 million, implemented by IFC; (iv) South Africa, USD 42.5 million, implemented by AfDB; (v) Thailand, USD 44 million, implemented by ADB, and USD 50 million implemented by IFC; and (vi) Vietnam, USD 28 million, implemented by IFC. <p>(b) approves that, for the period of up to 24 months after this decision is approved, the CTF Trust Fund resources in the amount of up to [USD 100 million][USD 150 million][USD 221.5 million] may be utilized to provide local currency lending to the projects and programs in those countries noted in (a) above and any currency exchange losses related to such local currency lending will be borne by the CTF Trust Fund;</p> <p>(c) approves that CTF Trust Fund resources in the amount of [USD X million] [will] be reserved to generate investment income to help offset potential losses related to repayments of local currency loans due to foreign exchange rates fluctuations under the arrangement described in paragraph (b) above;</p> <p style="text-align: center;">or</p> <p>approves that no CTF Trust Fund resources will be reserved to generate investment income to help offset potential losses related to repayments of local currency loans due to foreign exchange rates fluctuations under the arrangement described in paragraph (b) above;</p> <p>(d) if an amount other than the requested USD 221.5 million is approved, authorizes the CIF Administrative Unit and the MDB Committee to determine the allocation of the [USD 100 million][USD 150 million] resources available for local currency lending among the programs in the countries noted in (a) above, basing such allocation on readiness/needs of the projects and programs] and requests the MDB Committee to report to the joint meeting of the CTF and SCF Trust Fund Committee in November 2013 on the updates of such [allocation and] utilization of the local currency lending;</p> <p>(e) requests the Trustee to coordinate with the Contributors to the CTF Trust Fund to amend the Contribution and Loan Agreements/Arrangements to include provisions for sharing of losses or gains due to foreign exchange rate fluctuations on the outgoing loans; and</p> <p>(f) Agrees that if the MDBs require additional amounts to be deployed in local currency above the approved [USD 100 million][USD 150 million][USD 221.5 million] limit, the MDBs could present proposals to the CTF Trust Fund Committee</p>

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ CIF Administrative Unit / Trustee	<p>(Interest rate/timing mismatch)</p> <ul style="list-style-type: none"> ○ The CIF Administrative Unit working with the Trustee checks to ensure that the terms of outgoing financing from the CIF Funds are no more concessional than incoming financing; ○ While this mismatch may be negligible and offset, the Trustee evaluates and monitors the interest mismatch risk using the Funding Limit Model and provides the Committees with the Funding Limit Report; ○ The Trustee provides information to Committees on the amounts allocated by financing products: ○ Develop a permanent local currency solution
➤ Trustee	<p>(Exchange rate/promissory note) Regarding the Fund's two types of exchange rate risks:</p> <ul style="list-style-type: none"> ○ One risk is the difference between the currency of the contributors and the operational currency of the CIF. In some cases, the CIF receives non-USD denominated promissory notes from the contributors and, therefore, is exposed to exchange rate risk. The Trustee mitigates this risk by reserving a portion of promissory note balances from commitments in accordance with the World Bank practices. The reserve is released once the foreign currency is received and converted to US dollars. ○ The second risk is MDBs lending in local currency in which the fund bears the exchange rate risk.
➤ Committees / Trustee	<p>(Exchange rate/local currency loans) Hedging is one of the possible tools that can be used by the Trustee to mitigate this FX risk.²⁰ The Committees would need to agree and specify their tolerances for the cost of collateral and transactional costs associated with monitoring derivative transactions executed by the World Bank on behalf of the CIF. In addition, contingency management policies, including handling of overdraft charges or penalties due to delays or non-payment of reflows, need to be agreed and established.</p>

64. Monitor and Report (Proposed Reporting and Communication Process): A critical component of the Tier 1 ERM Program implementation includes the proposed plan for reporting and communication process below:

- Liquidity - Trustee manage these risks with enhanced processes and procedures on a semiannual basis and Trustee reporting will provide status on liquidity to Committees.
- Interest Rate – Trustee continues current mitigation processes.
- Exchange Rate – Dependent on the decisions of the Committees at the May 2013 Joint Meeting.

²⁰ Reference “Estimated Cost of Hedging for Local Currency for CIF Trust Funds”, CTF-SCF/TFC.9/CRP.3, dated November 2, 2012.

Operational Risks

65. Although the risks associated with provision of timely information (Risk 7) and the risk of misalignment between sources and uses of funds (Risk 8) have been categorized as primarily operational risks, the main attributes of these risks also address strategic and financial risk areas, such as quality of information and suboptimal use of CIF funds.

66. In response to the two operational risks described in this section of the report, the ERM Working Group's recommendations focus on the quality of information and improved communication of information. The information associated with misuse of funds should be communicated by MDBs to the Trustee, the CIF Administrative Unit and the Trustee at the portfolio level sufficiently early in the cycle to monitor and ensure that the sources of funds match the uses of the funds.

6

Misuse of funds or other problems with project implementation

67. Residual Risk (Risk Description): The risk of not having quality and timely information on misuse of funds or other significant problems with project implementation critical to the Committee's decision making process.

68. Risk Context with Tolerances: The CIFs are disbursed through the MDBs to support effective and flexible implementation of country-led programs and investments. One of the underlying principles of this structure is that each MDB will use its own policies and procedures (including procurement of goods and services and reporting arrangements) in carrying out its responsibility for the use of funds transferred to it. The Standard Provisions of the CIFs (paragraph 8.2) established that the Financial Procedures Agreements (between MDBs and Trustee) shall provide for this requirement and further that the MDBs are responsible for ensuring that funds transferred are used in accordance with the applicable decisions of the CIF TFC, including the purpose for which the allocations of the funds have been approved, and reporting to the TFC on its activities in accordance with the terms of the Governance Framework document. Each MDB has robust procedures to mitigate the risk of misuse of funds. However, there is no reporting process in place to ensure the Committees are informed of misuse of funds.

69. Tolerances to Date: UK – Low; Germany – Low; Spain – Low; Canada - Low; US – Low.

70. Event (Risk Triggers): The specific event that serves as a trigger for this risk is the misuse of funds or other significant problems during the implementation and supervision phases. Additionally, identifying when there may be difficulties in meeting expected environment and social safeguards, and/or other reputational or compliance issues.

71. Risk Response (Recommended Risk Actions): To address this risk as part of the Tier 1 ERM Implementation program, the ERM Working Group recommends the following proposed actions with responsible parties taking charge of the implementation of each proposed risk action:

Owner (Responsible Party)	Risk Response (Proposed Risk Action)
➤ MDBs	Monitor use of funds and inform Committees (via the CIF Administrative Unit) in accordance with Committees' requirements.
➤ MDBs	Inform relevant CIF committees (via the CIF Administrative Unit) if any difficulties in meeting expected environment and social safeguards, and/or other reputational or compliance issues similarly to how they inform their Boards
➤ CIF Administrative Unit	Share findings and lessons learned with Committees.
➤ Committees	Establish clear policies and timelines for reporting misuse of funds to Trustee and CIF Administrative Unit. Once misuse of funds is reported, Committees will discuss and determine the appropriate course of action.
➤ Trustee	Maintain a database (currently in place) of misuse of funds and provide a summary to the CIF Administrative Unit.

72. Monitor and Report (Proposed Reporting and Communication Process): A critical component of the Tier 1 ERM Program implementation includes the proposed plan below. This will enhance the current CIF Administrative Unit process in analyzing the health of the Funds and to report pipeline information and assess whether the implemented risk actions mitigated the risk effectively:

- Trustee maintains a database of notifications of misuse of funds and CIF Administrative Unit reviews compliance with established reporting policies and timelines.
- Once a year, as part of the overall review of risk register, Committees will assess compliance with the established reporting policies and timelines.

7 Misalignment between sources and uses of funds

73. Residual Risk (Risk Description): Not having information at the portfolio level sufficiently early in the cycle to monitor and ensure that the sources of funds match the uses of the funds. This risk focuses on the MDB providing the CIF Administrative Unit and the Trustee with the expected category of financial product (soft vs. hard credits / grant) at the upstream portfolio planning phase. This may result in a breach of the funding limit rule or later stage project renegotiation.

74. Risk Context with Tolerances: The misalignment between the sources and uses of funds risk focuses on the MDBs, the CIF Administrative Unit and the Trustee having information at the portfolio level sufficiently early in the cycle to monitor and ensure that the sources of funds match the uses of funds. Under CTF, the financing products and terms are based on the following principles regarding contributions:

- Contributors can provide funding as grants, capital contribution and concessional loans with IDA-like terms.
- There will be no cross-subsidies among the contributors.
- Outgoing financing from the CTF cannot be more concessional than incoming financing.
- The CTF cannot blend financing from grant and capital contributions with financing from loan contributions, unless it is on terms no more concessional than the terms of the loan contributions or supports separate parts of a project (for example, grants for technical assistance and concessional loans for investment financing).
- The CTF Committee is responsible for determining the terms of outgoing financing (bearing in mind principal and other financial management issues as determined by the Trustee), including financing and terms for the private sector.
- All sources of funds will be co-mingled for administrative and investment purposes.

75. Tolerances to Date: UK -Low to Moderate; Germany – Low; Spain – Low; Canada - Low; US – Moderate.

76. Event (Risk Triggers): The specific events that serve as triggers for the occurrence of this risk include:

- Delayed information on project funding terms.
- Submission of program/project for approval/funding request that, if accepted, would cause misalignment of the funding limits.
- The Committees are not provided information when proposed project terms might affect future projects.

77. Risk Response (Recommended Risk Actions): To address this risk as part of the Tier 1 ERM Implementation program, the ERM Working Group recommends the following proposed actions with the responsible parties implementing each proposed risk action:

Owner (Responsible Party)	Risk Response (Recommended Risk Action)
➤ MDBs	In the semiannual pipeline update, the MDBs need to report their estimates of the term buckets (75%/25%).
➤ CIF Administrative Unit	Collects information, conducts analyses and present to MDB Committee.
➤ MDB Committee	Reviews information to determine if the sources and uses of funding are in alignment. If the sources and uses are not aligned, the MDB Committee agrees on steps to ensure alignment.

78. Monitor and Report (Proposed Reporting and Communication Process): A critical component of the Tier 1 ERM Program implementation includes the proposed plan (below). This will enhance the current CIF Administrative Unit process in analyzing the health of the Funds, reporting pipeline information, and assessing whether the implemented risk actions mitigated the risk effectively. These steps include:

- As part of the pipeline updates review, the MDB Committee will assess the funding alignment analysis conducted by the CIF Administrative Unit.
- In the context of that review, the MDB Committee will determine whether funds are appropriately aligned or not.
- MDB Committee takes necessary actions to ensure alignment of funds.

VI. The Way Forward to Implement the ERM Program

79. Two critical components in implementing a CIF ERM Program that will enhance the CIF's ability to analyze and communicate the health of the Funds (strategic, financial and operational) include:

- An annual assessment of the ERM Program.
- An integrated plan to implement the Recommended Risk Actions, which will enhance the CIF Administrative Unit and Trustee's ability to analyze and communicate the health of the Funds (strategic, financial and operational).

80. Annual ERM Assessment: As described in the methodology section, the CIF ERM Framework recommends a holistic CIF ERM Program as depicted in Figure 3 below. This program structure consists of three levels, the Committees, the MDB Committee, Trustee and CIF Administrative Unit and the countries and MDBs. The Committees are responsible for establishing risk governance, oversight and ownership. Due to the intricacies of the risks, the matrix structure of the CIF governance, and the changing aid landscape and ERM best practices, the ERM Working Group recommends the Committees implement a sustainable governance and enterprise risk management program and annually review the effectiveness of the ERM Program and governance structure. The annual ERM assessment should have three components: (i) the Committees should determine if the risk response actions have been effectively implemented; (ii) the Committees should determine if the responses have had the intended impact of providing the portfolio information needed to make risk informed decisions, and (iii) the Committees with the MDBs and a risk expert should identify Tier 2 risks that need to be addressed. Annex C presents a notional concept of best practice ERM dashboard.

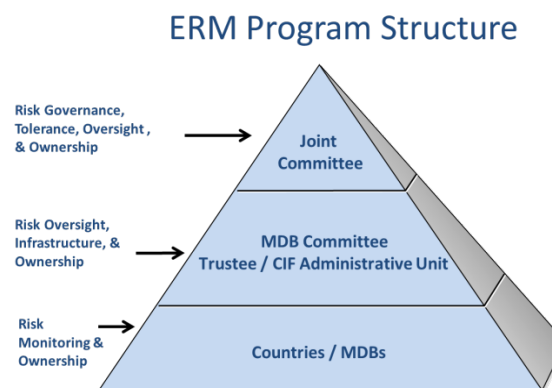


Figure 3

with

81. Integrated Plan to Implement the Recommended Risk Actions: The Table below summarizes the major tasks required to implement the Tier 1 Risks Recommended Actions. The plan is composed of the tasks needed to develop the policies, processes and tools to operationalize the risk recommended actions presented in the individual risk analysis. All the recommended actions can be achieved within six months with the exception of: (i) Implementation of a new business model for private sector, (ii) local currency loans and (iii) excessive concessionality. The detailed project plan is presented in Annex D.

Summary Tier 1 ERM Action Plan

WBS	Task Name
1	Implement Tier 1 ERM Recommended Risk Actions
1.1	Submit CIF ERM paper and obtain Committee decision
1.2	Modify the CIF Tier 1 risk actions as directed by the Committee decision
1.3	Update the CIF Tier 1 Operational project plan
1.4	Obtain Committees tolerances and threshold for each Tier 1 risk
1.5	Implement annual Committees risk assessment process
1.6	Implement risk actions to mitigate Tier 1 risks
1.6.1	Implement Risk 1: Committees may not make risk informed decisions process
1.6.2	Implement Risk 2: Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF) process
1.6.3	Implement Risk 3: Suboptimal use of CIF funds process
1.6.4	Implement Risk 4: Portfolio losses exceed tolerances process
1.6.5	Implement Risk 5: Asset - Liability Mismanagement (ALM) process
1.6.6	Implement Risk 6: Misuse of funds or other problems with project implementation process
1.6.7	Implement Risk 7: Misalignment between sources and uses of funding process

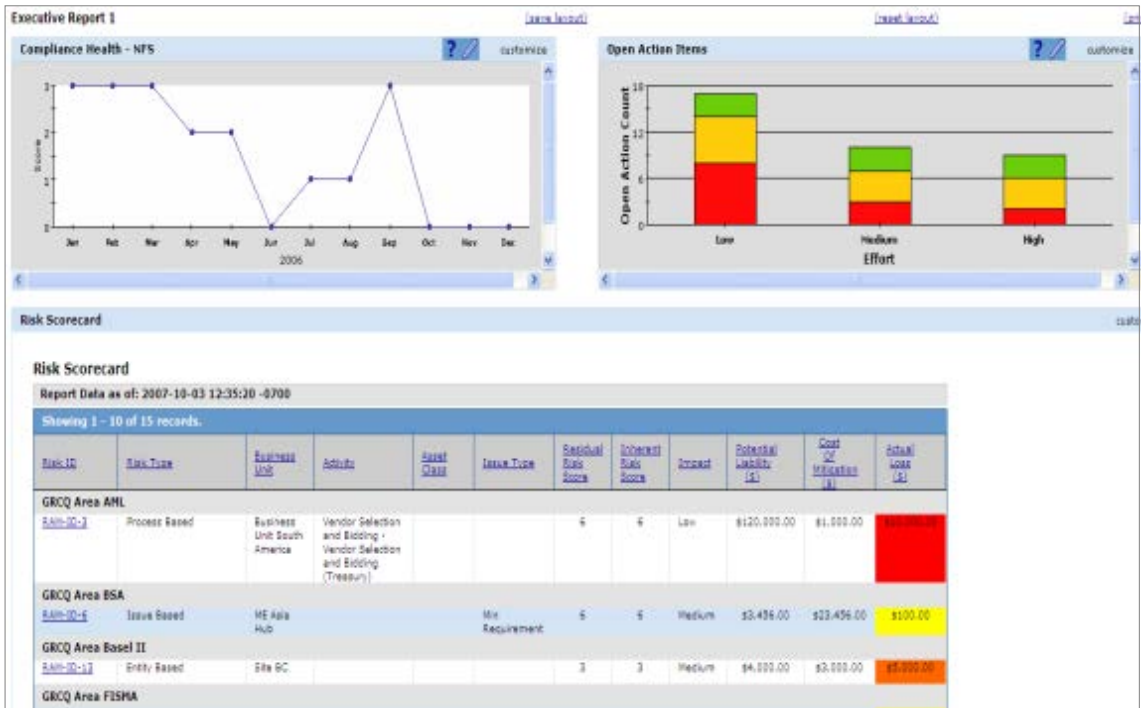
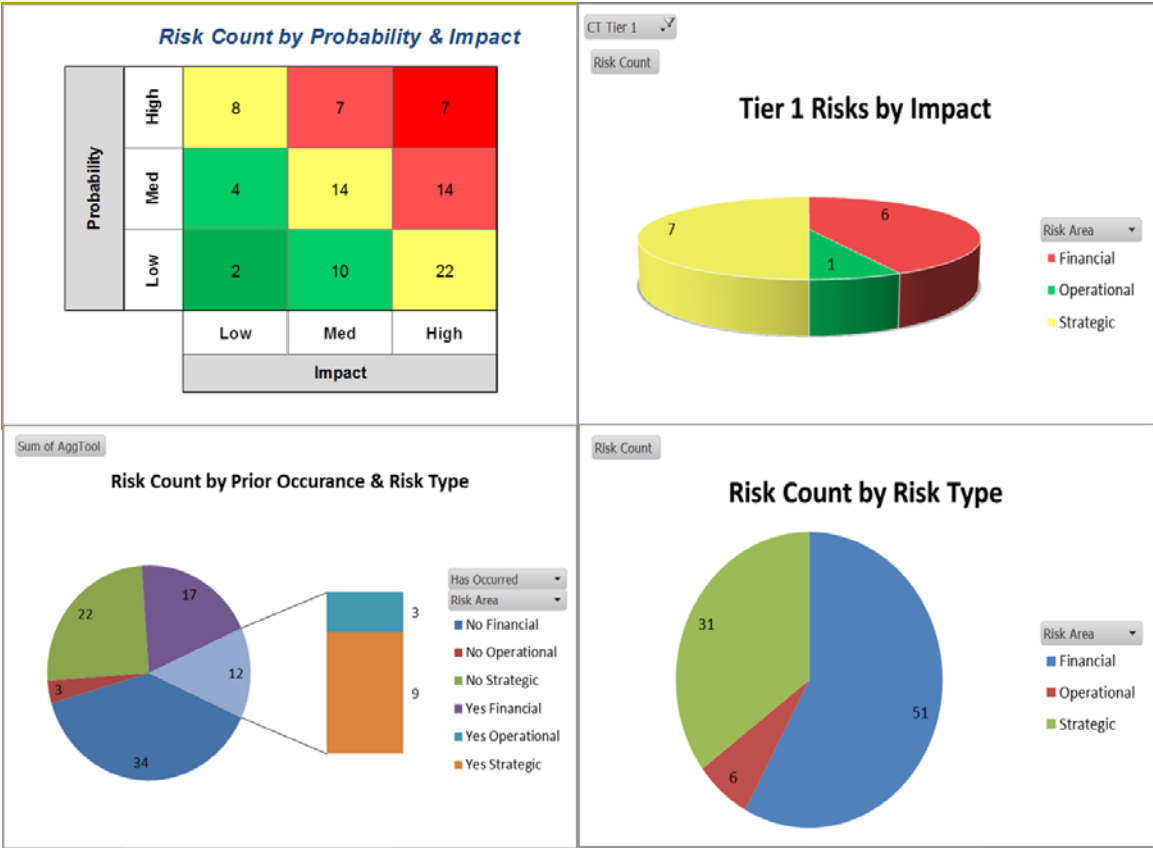
Annex A: CIF ERM Framework

Step	Establish Context	Communicate	Establish Risk Baseline			Monitor & Report
	Establish ERM Environment	Establish Communication Program	Identify Events & Potential Risks	Evaluate Risks	Determine Risk Response Strategies	Track & Communicate Progress
Process	Define risk management goals and objectives informed by the TFCs' strategic vision <ul style="list-style-type: none"> Objectives Risk tolerance levels Constraints Determine governance model <ul style="list-style-type: none"> Risk management philosophy TFC oversight ERM working group Organizational structure Roles, responsibilities Decision-making authority Revise relevant policies	Establish common language Communicate risk governance model <ul style="list-style-type: none"> Risk management philosophy TFC oversight ERM working group Organizational structure Roles, responsibilities Decision-making authority Communicate ERM risk policies <ul style="list-style-type: none"> Strategic, tactical, quality plans Risk management architecture Support and communicate proper flow of relevant project information Communicate future monitoring and reporting process	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	Determine an appropriate response category <ul style="list-style-type: none"> Terminate Treat Accept Transfer Determine additional risk response Determine risk owner Evaluate portfolio impact Index the risk to all relevant events	Generate portfolio view reports Identify degree to which business objectives are being met Collect, graph, and analyze performance and financial data Continuously inform TFC decisions Record experiences, Barriers and aids in implementation Incorporate lessons learned Reevaluate risks on an annual basis or based on events
	Risk Governance & Policies	Communication Plan	Preliminary Risk Register	Prioritized Risk Register	Baseline Risk Register	Portfolio Review

Annex B: Illustrative CIF Portfolio Dashboard

Please see the Annex B Illustrative CIF ERM Dashboards PowerPoint presentation attached at the bottom of this document. .

Annex C: Notional ERM Dashboard



Annex D: Way Forward - CIF ERM Project Plan

Below is a more detailed CIF ERM Project Plan. The tasks that will take more than six months are highlighted in pink.

WBS	Task Name
1	Implement Tier 1 ERM Recommended Risk Actions
1.1	Submit CIF ERM paper and obtain Committee decision
1.2	Modify the CIF Tier 1 risk actions as directed by the Committee decision
1.3	Update the CIF Tier 1 Operational project plan
1.4	Obtain Committees tolerances and threshold for each Tier 1 risk
1.5	Implement annual Committees risk assessment process
1.5.1	Develop governance process for each fund (CTF, PPCR, FIP, SREP)
1.5.2	Develop annual risk assessment process
1.5.3	Operationalize the annual risk assessment process
1.5.4	Develop training material and train Committee members in the risk assessment process
1.5.5	Conduct facilitated risk sessions for each Committee
1.6	Implement risk actions to mitigate Tier 1 risks
1.6.1	Implement Risk 1: Committees may not make risk informed decisions process
1.6.1.1	Complete risk metrics
1.6.1.2	Enhance pipeline analysis and reporting
1.6.1.3	Enhance financial analysis and reporting
1.6.1.4	Integrate the pipeline and financial databases
1.6.1.5	Develop Portfolio Dashboards (CIF, CTF, FIP, PPCR, SREP)
1.6.1.6	Implement portfolio reporting process
1.6.2	Implement Risk 2: Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF) process
1.6.2.1	Develop guidelines to be used by Lead MDBs and countries to use in programmatic oversight assessments
1.6.2.2	Develop programmatic assessment metrics
1.6.2.3	Integrate the programmatic assessment information into the Results Framework
1.6.2.4	Modify program policies (if needed)
1.6.2.5	Develop process for Lead MDB to inform CIF Administrative Unit of programmatic assessments
1.6.2.6	Develop process to review programmatic assessments mitigation of risk 2
1.6.2.7	Develop process to inform Committees
1.6.2.8	Operationalize the Results Framework
1.6.3	Implement Risk 3: Suboptimal use of CIF funds process
1.6.3.1	Enhance and integrate semi-annual dashboards to MDB VPs and MDB committee on a quarterly basis and semi-annually to the TFC.
1.6.3.2	Implement new private sector business model
1.6.3.2.1	Develop new private sector business model(s)
1.6.3.2.2	Develop metrics to assess impact of new business model to suboptimal use of CIF funds risk
1.6.3.2.3	Obtain MDB confirmation of the private sector business model(s)
1.6.3.2.	Obtain Committees approval of the private sector business model(s)

WBS	Task Name
4	
1.6.3.2.5	Operationalize private sector business model
1.6.3.3	Implement over programming
1.6.3.3.1	Develop over programming guidelines and operationalize
1.6.3.3.2	Develop metrics to assess impact of over programming to impact of Suboptimal Use of Funds risk
1.6.3.4	Develop method to determine if excessive concessionality exists and if found develop recommended actions
1.6.3.4.1	Develop method to determine if excessive concessionality exists
1.6.3.4.2	Develop recommended actions to reduce excessive concessionality
1.6.3.5	Use the sector based profiles (timelines and disbursement patterns) in MDB Committee meetings
1.6.4	Implement Risk 4: Portfolio losses exceed tolerances process
1.6.4.1	Develop losses exceeds tolerances analysis process
1.6.4.1.1	Develop credit/default loss analysis
1.6.4.1.2	Develop investment loss analysis
1.6.4.2	Integrate with Portfolio Dashboard
1.6.5	Implement Risk 5: Asset - Liability Mismanagement (ALM) process
1.6.5.1	Develop minimum liquidity requirement analysis and reports
1.6.5.2	Develop interest risk analysis and report
1.6.5.3	Develop foreign exchange rate analysis and reporting
1.6.5.3.1	Develop promissory note analysis and reports
1.6.5.3.2	Develop local currency lending analysis and reports
1.6.6	Implement Risk 6: Misuse of funds or other problems with project implementation process
1.6.6.1	Determine policy and timelines to inform Committees on Misuse of funds or other problems with project implementation (update legal documents if needed)
1.6.6.2	Determine process to inform Committees on Misuse of funds or other problems with project implementation
1.6.6.3	Develop database to house information
1.6.6.4	Develop metrics to determine if process is mitigating risk
1.6.6.5	Integrate the process into either the Trustee or CIF Administrative Unit
1.6.6.6	Integrate into the Portfolio Dashboard
1.6.7	Implement Risk 7: Misalignment between sources and uses of funding process
1.6.7.1	Enhance pipeline reporting to include estimates of term buckets
1.6.7.2	Enhance CIF Administrative Unit funding limits analysis
1.6.7.3	Integrate with the Portfolio Dashboard
1.6.7.4	Develop MBD Committee process to effectively use the estimated terms to more effectively use funds based on the funding constraints

Annex E: CIF Tier 1 Risk Register

82. The ERM Tier 1 Risk Register is a tool used to capture and track the top priority risks that can impact the CIF's mission and strategic objectives. This register, which includes the top risks (both internal and external), is currently the primary tool for reporting and communication process the CIF risk actions and the effectiveness of existing risk mitigation strategies. The ERM Tier 1 Risk Register includes both quantitative and qualitative data related to each risk, such as probability, impact, and current management controls. In line with best practices, the ERM Risk Register will be a living document, with iterative processes for identifying, analyzing, and incorporating new events and risks as they arise. The ERM Working Group recommends that the Committees use the Risk Register tool in conducting annual assessments of top risks and the effectiveness of risk actions. The Committees may determine that other tools, in addition to the ERM Risk Dashboard, should be created to facilitate the Committees' annual risk assessment process.

83. The Working Group used an initial risk register, produced by Booz Allen, in the process of developing the CIF ERM Framework to serve as a starting point to identify the top priority risks for the CIF.²¹ This initial risk register was derived using a combination of best practices from the COSO, ISO 31000 and World Bank and tailored to meet CIF's needs.²²



CIF ERM Framework

84. The Working Group created a draft list of Tier 1 risks using a standard risk assessment process of identifying the probability and impact of each risk. Thereafter, these scores were calculated and the risks were ranked. The risks were presented in consultations with the Committees, which then selected the Tier 1 risks for the ERM Working Group to include in the Tier 1 risk analysis.

85. The Working Group elected to change the titles of the risk terms from the formal ERM terms to laymen's terms, as presented in the Table below.

Map of Risk Register Terms

ERM Risk Term	Formal Definition	Working Group Risk Term
Risk Name	Abbreviated version of the inherent risk used to facilitate classification/aggregation to allow different reporting views	Risk Short Name
Risk Area	The broadest level of risk classification (i.e. financial, operational and strategic)	Risk Category
Probability	Likelihood of residual risk occurring due to an internal or external event	Probability

²¹ CTF-SCF/TFC.9/9 Enterprise Risk Management Framework Report for the Climate Investment Funds. October 2012.

²² Ibid.

ERM Risk Term	Formal Definition	Working Group Risk Term
Impact	Degree of severity or impact to the entity if the residual risk materializes; impact can be positive or negative in nature	Impact
Risk Tolerance	The level of exposure to the occurrence of a risk event than an entity is willing to accept when pursuing its objectives.	Risk Tolerance
Owner	Entity or group responsible for ensuring assigned risk is properly managed and monitored and communicating results. In the case of the CIF this role is identified at the recommended risk action level.	Responsible Party
Event	An incident or planned occurrence arising from either internal or external sources and occurring at any level of the organization that could impact the entity's strategic objectives	What Events Trigger the Risk Occurrence?
Risk Context	Added by the ERM Working Group to describe the CIF context to better understand the risk	Risk Context
Residual Risk	Remaining risk after current management controls and actions.	Risk(s) Description
Risk Response	Actions taken to mitigate the risk. Note: During the first Working Group session, based on the Committees request, the group reviewed of the following additional information: Current Management Response (What Are You Currently Doing About It and Is This Current Response Working?); Risk Response (Do You Want to Change the Current Process? If So, How?)	Recommend Risk Action
Trigger	A qualitative or quantitative information or threshold used to signify that a risk has materialized or is about to occur.	Trigger
Monitor and Report	Identify, capture, analyze and communicate relevant risk information across all levels of the entity and to external stakeholders	Proposed Reporting and Communication Process

86. The Tier 1 CIF Risk Register is in the CIF ERM Tier 1 Risk Register excel file.

CIF Working Group Tier 1 Risk Register	
ID	1
Risk Name	Committees may not make risk informed decisions.
Risk Area	Strategic
Probability	3
Impact	2.5
TFC Tolerance	UK - Low Germany - Low Spain - Canada - Low US - Low
Risk Context	The Working Group identified this risk in the context of an existing need for enhanced quality of information from the MDBs, including: an integrated (pipeline and financial) portfolio risk analysis, and reporting and communication to support CIF oversight and Committees ability to make risk informed decisions. Figure 3 presents some members tolerance levels the Working Group has received to date. The analysis of existing information collection tools used for management of project pipeline demonstrates that while most necessary processes are in place for tracking and analysis of project approval progress, the need for enhanced MDB information (quality and completeness) presents challenges. Furthermore, while pipeline information is collected at an individual project level and analyzed using the CIF traffic light system, this system does not call attention to specific pipeline backlogs at country / portfolio level. This information could be useful in identifying regional or sectorial trends. It also does not include an explanation from MDBs, on a consistent basis, that identifies the reasons behind project delays and the proposed actions to address those delays. As a result, the quality and flow of project pipeline information impacts the Committees' ability to make risk informed decisions and provide strategic oversight/governance of the overall portfolio, which in turn may cause the risk of reputational impact to the CIF (both the Committees (including the trust fund and the MDB committees) and the MDBs). The Working Group stressed the need for project level transparency so that the CIF Administrative Unit has sufficient information to provide for timely analysis and solutions to address any barriers or challenges.
Residual Risk(s) Description	This risk arises if (i.) quality and complete information is not provided to support oversight of the CIF in a timely manner, preventing the Committees from making risk informed decisions; and (ii.) and the Committees lacks access to integrated portfolio information (strategic, financial and operational) in order to make more informed decisions (e.g. the Committees do not have the portfolio view of impacts of local currency loans and therefore has not be able to determine the best course of action on local currency loans). As a consequence, the Committees may not be able to efficiently exercise the oversight role and risks may result in reputational impact to the Committees, MDBs and the overall CIF initiative. Additionally, the CIF may not be unable to achieve its objectives, including loan dissemination, lessons learned, and transparency.
Events (Triggers)	<ul style="list-style-type: none">• Inconsistent quality and completeness of project pipeline information provided by the MDBs needed to provide a realistic portfolio overview.• Delays in information shared by MDBs regarding the project pipeline.• Annual or semi-annual Committees risk assessment results in the need for enhancements or changes to the financial information submitted by the Trustee. In addition, specific events may occur that require additional/enhanced financial information.
Risk Response (with Responsible Party)	Owner (Responsible Party)/Risk Response (Proposed Risk Action) Committees Agree on tolerance needed to ensure provision of timely and accurate information. Use the enhanced portfolio information to make timely decisions. MDB Enhance the quality of the information (for example, higher quality milestone dates, identifying reasons behind project delays and proposed action to address those delays). Create sector based profiles (timelines and disbursement patterns) for use by the CIF Administrative Unit to communicate to the Committees. CIF Administrative Unit Enhance MDB pipeline template and current CIF Administrative Unit traffic light system tool with additional information needed, for example action plan for addressing project delays, estimated term type (soft/hard). Enhance reporting and communication on project milestones for the traffic light system monitoring tool. Establish triggers to alert MDBs for additional input, if insufficient information is provided. Enhance portfolio analysis and include portfolio dashboards provided to VPs of MDBs on a quarterly basis and to the MDB Committee in quarterly pipeline meetings to support a more robust management of the CIF pipeline. CIF Administrative Unit/Trustee Develop integrated portfolio reporting for each program (CTF, PPCR, FIP, & SREP) that provides timely pipeline, financial and risk information to enhance overall portfolio analysis and reduce information redundancy and reconciliation. (See Annex B for a conceptual design of CIF Portfolio Dashboard).

Monitor & Report	<p>Critical components of the new reporting and communication process includes: i) an enhanced pipeline reporting and analysis process (note that this process has already been initiated by the CIF Administrative Unit); ii) an enhanced Trustee financial reporting and analysis process; and iii) providing timely information to the Committees for use in making risk informed decisions.</p> <p>The proposed plan to enhance the current CIF Administrative Unit process in analyzing the health of the Funds and reporting pipeline information and an assessment of whether the implemented risk actions have mitigated risks effectively. The enhanced integrated portfolio analysis and reporting process includes the following steps:</p> <ul style="list-style-type: none">• CIF Administrative Unit provides a new pipeline information template to MDBs;• MDBs submit enhanced pipeline information;• CIF Administrative Unit reviews pipeline information and alerts MDB of missing or suboptimal information;• CIF Administrative Unit enters project pipeline information into the integrated CIF database (containing both financial and pipeline information);• CIF Administrative Unit compiles and analyzes portfolio pipeline;• CIF Administrative Unit creates portfolio pipeline information, reports and dashboards and submits to MDB Committee for the quarterly MDB pipeline meeting;• MDB Committee reviews pipeline portfolio reports and determines required actions;• CIF Administrative Unit creates portfolio pipeline information, reports and dashboards and submits to the CIF committees (CTF, FIP, PPCR, and SREP) for semiannual meetings. <p>The proposed plan for enhancing the current CIF Trustee process in analyzing the financial health of the Funds includes:</p> <ul style="list-style-type: none">• MDB provides financial information to the Trustee;• Trustee analyzes financial health of the Fund using the existing and enhanced analysis tools;• Trustee incorporates in its current report the portfolio view of the financial status of the fund in collaboration with the CIF Administrative Unit. In addition, the financial health status will be merged with the CIF Administrative Unit Strategic and Operational Fund portfolio annual report to provide a consolidated report to the Committees. <p>The CIF Administrative Unit and the Trustee will work with the Committees to determine the reporting frequency for each component of the pipeline, financial and risk information.</p>
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CIF Working Group Tier 1 Risk Register	
ID	2
Risk Name	Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF).
Risk Area	Strategic
Probability	2
Impact	3
TFC Tolerance	UK - Low Germany - Low Spain - Canada - Low US - Low
Risk Context	The CIF programmatic approach is based on country investment plans that aim to finance investments that together serve to address the strategic goals of each CIF program. IPs are integrated with national goals and undertaken jointly by the recipients, the MDBs, private sector, and civil society to serve as a programmatic framework for a given sectorial or thematic area of intervention. The risk of not achieving the intended programmatic approach for CIF was raised in the context of lessons learned obtained while implementing projects.
residual Risk(s) Description	Thus risk may arise if there is no continued oversight of an IP after it is approved. Additionally, if there are no requirements to monitor and measure the programmatic achievements of an IP. As a consequence, an IP could fail to achieve its programmatic objective.
Events (Triggers)	<ul style="list-style-type: none"> • Lack of continued country ownership and programmatic oversight after approval of IPs. • Inability to capture the broader impact of projects and synergies. • Difficulties in encouraging or catalyzing subsequent investments after the CTF intervention.
Risk Response (with Responsible Party)	<p>Owner (Responsible Party)/Risk Response (Proposed Risk Action)</p> <p>CIF Administrative Unit Prepare informational reports, using quality information provided by MDBs, on the portfolio and develop specific analysis and provide synthesis of information for each CIF program fund using the January 14, 2013 Revised Results Framework.</p> <p>Country/Lead MDB The country, working with the lead MDB, should be supported and held accountable for continued oversight and reporting on the progress in achieving programmatic objectives though out the program lifecycle. As agreed in May 2012 convene regular (every 1 or 2 years) stakeholder forums on the CIF funded programs to review programs against the CIF result framework, learn from experience, identify areas where better coordination is required to maximize synergies and keep the programmatic focus on track. For countries that are revising IPs, incorporate steps to maintain the programmatic approach moving forward. For countries that are not revising IPs, convene discussions on progress made to date towards programmatic results and agree on appropriate actions.</p> <p>Countries, MDBs and CIF Administrative Unit The countries, MDBs and the CIF Administrative Unit should integrate these recommended risk response actions into the operationalization of the CIF Results Frameworks. This will include annual reporting from the country and MDB to the CIF Administrative Unit on the status of the program in each country. The CIF Administrative Unit will need to compile the country program reports into a comprehensive overview on the “health” of the four CIF programs for review by the Committees.</p>

CIF Working Group Tier 1 Risk Register	
Monitor & Report	<p>A critical component of the Tier 1 ERM Program implementation includes the proposed plan (below) to enhance the current CIF Administrative Unit process in analyzing the health of the Funds. This will aid the reporting of pipeline information and provide an assessment of whether the implemented risk actions effectively mitigated the risk:</p> <ul style="list-style-type: none">• Lead MDB (which will require, at least at the MDB Committee level clarity on who is the lead MDB) consults with the country and other MDBs on an annual basis to monitor and report the progress at the program level based on the revised results framework;• Lead MDB reports progress on an annual basis to the CIF Administrative Unit on the status of the program in each country;• The CIF Administrative Unit will need to compile the country program reports into a comprehensive overview on the “health” of the four CIF programs for review by the Committees. The analysis should have proactive triggers and use project type profiles to identify areas that are in danger of not meeting the programmatic objectives;• Committees review the reports and make risk informed decisions.

CIF Working Group Tier 1 Risk Register

ID	3
Risk Name	Suboptimal use of CIF funds.
Risk Area	Strategic
Probability	3
Impact	3
TFC Tolerance	UK - Moderate Germany - Moderate Spain - Canada - Low US - Low
Risk Context	The CIF funds are committed and disbursed using a clear decision-making process. As discussed by the ERM Working Group, the risk of sub-optimal use of funds can occur at any of the following stages: i) The approval of investment plans when Committee member expectations are set through a discussion on the proposed level, timing, and application of funds by country; ii) Approval of commitment of funds by the relevant Committee to specific projects. Once committed for specific projects, funds are no longer available for other purposes; iii) Approval by MDBs of specific projects, with disbursement milestones; iv) Start of project implementation and disbursements phases; v) Completion of disbursements.
Residual Risk(s) Description	This risk relates to projects in the pipeline for which resources have been allocated that are not advancing in accordance with established milestones. As a result, resources are reserved for projects that are not progressing, which could be used for implementation ready projects. This risk has four key attributes: (i) there is a sense that there are unrealistic expectations about the ability of the CIF to deliver against the agreed investment plans; (ii) projects in the pipeline for which resources have been allocated are not advancing in accordance with the established milestones, thereby tying up funds which could be allocated for the development of projects that are ready to implement; (iii) there are limitations in the oversight and understanding by the Committees as to the barriers and delays to project development and implementation, which is aggravated if there is not comprehensive, quality information (more realistic pipeline dates, informative status reports and more detail justifications for delays) provided by MDBs in the pipeline reports, and (iv) current programming model of country-based programs may not be optimal for engaging the private sector. Engaging the private sector and promoting markets may require a more flexible approach that would allow investments where opportunities exist as opposed to limiting investments to individual countries with CIF IPs (v) if on projects that do not require the degree of concessionality that is negotiated to go forward, this excessive concessionality, which may significantly hamper overall efficiency and effectiveness of the CIF while leading to unwanted market distortions and crowding out of other public and private investors.
Events (Triggers)	Tracking project progress against unrealistic deliverable milestones: <ul style="list-style-type: none">• Lack of quality information associated with project delays;• Use of current programming model for engaging the private sector.

CIF Working Group Tier 1 Risk Register

Risk Response (with Responsible Party)	Owner (Responsible Party)/Risk Response (Proposed Risk Action) CIF Administrative Unit/MDBs Enhance and integrate dashboards to MDBs on a quarterly basis and on a semiannual basis to the Committees. Committees Seek Committees approval for over-programming policy and process Analyze and define the impact of inefficient allocation of funds that may result in excessive concessionality. MDB Committee Develop profile baselines (i.e. timelines and disbursement patterns). CIF Administrative Unit/MDBs Operationalize the above risk actions.
Monitor & Report	A critical component of the Tier 1 ERM Program implementation includes the proposed plan for reporting and communication process below. However, there needs to be a balance between keeping momentum and allowing space for complex projects. More realistic forecasts will enable flexibility for the TFC to reallocate within an IP: <ul style="list-style-type: none">• Enhance and integrate semi-annual dashboards to MDB VPs and MDB Committee on a quarterly basis and semi-annually to the trust fund Committees;• Over-programming: as part of pipeline management – merge the tranche one and tranche 2 funding to allow for approval of additional counties IPs;• Automate existing traffic light system with additional indicators that have been approved. Give further consideration to the actions(s) to be taken if the milestones are missed.

CIF Working Group Tier 1 Risk Register		
ID	4	
Risk Name	Portfolio losses exceed tolerances.	
Risk Area	Financial	
Probability	1	
Impact	1	
TFC Tolerance	UK - High Germany - Low Spain - Low Canada - Moderate (two different comments one high and one low) US - High	
Risk Context	This risk may arise due to lack of systematic monitoring and reporting of threshold breaches. This risk can arise from two primary sources: (i) losses to the CIF related to project lending (loan non-repayment and calls on guarantees paid but not recovered); (ii) losses related to the investment portfolio managed by the Trustee and (iii) losses associated with exchange rate fluctuations during the term of local currency lending (see risk 5 Asset-Liability Mismanagement).Losses related to project lending can be caused by: <ul style="list-style-type: none">• Credit/default risk (incl. private/sovereign default);• Political (incl. regulatory/political risk);• Market risk (incl. interest, currency, commodity risks);• New instruments risk (incl. use of complex new instruments).	
Residual Risk(s) Description	<u>Losses related to project lending</u> <ul style="list-style-type: none">• Credit/ default risk arises whenever a borrower (either public or private) is expecting to use future cash flows to pay a current debt. In the case of public sector loans that have sovereign guarantees, credit risk is analogous to sovereign risk. Due to lack of country level data, the Working Group identified Global Emerging Markets database (GEMs) as a reference for inferring country risks using average regional data.• Political risk (including breach of contract) relates to the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation due to changes in political and regulatory environment at country level.• Market risk relates to risks arising from changes in interest rate, foreign exchange rates and commodity pricing (note foreign exchange risk is presented as a part of the ALM risk).• New instruments risk relates to risks arising from implementation of new and complex instruments in the CIF portfolio.	<u>Losses related to the investment portfolio</u> <ul style="list-style-type: none">• The CIF investment portfolio is subject to the General Investment Authorizations of IBRD and IDA, which authorizes IBRD and IDA to enter into a specific set of market transactions, both for their own portfolios and for funds managed on behalf of others (including the CIF).• Engaging in investment transactions for CIF beyond those expressly authorized in the IBRD and IDA General Investment Authorizations, including investments in public developed market equities, is allowed only upon explicit instructions from the Committees.

Events (Triggers)	<ul style="list-style-type: none">• Losses reported by MDBs to the Trustee related to project lending (e.g. arrears or local currency lending).• Losses related to investment portfolio managed by Trustee.• Insufficient investment income to cover losses.
Risk Response (with Responsible Party)	<p>Owner (Responsible Party)/Risk Response (Proposed Risk Action)</p> <p>Committees Committees provide specific total loss tolerance (specific benchmarks).</p> <p>Working Group/ Trustee Trustee continues its current risk management processes. In collaboration with the Working Group, the Trustee enhances the financial analysis and incorporates agreed recommendations (see Annex B: Sample CIF Portfolio Dashboard).</p> <p>Trustee Trustee enhances its IT platform to store reported arrears and loan defaults and integrate with the CTF cash flow model. Increase frequency of reporting key financial / risk portfolio information to the Committees. See Annex B for representative CIF ERM Enterprise Portfolio Risk dashboard. Trustee to develop a cash flow model for the SCF.</p> <p>Committees Committees annually review aggregate weighted average portfolio credit rating to assess overall portfolio credit risk.</p> <p>MDB committee/ Working Group MDB committee would review CIF concessional loan rates in comparison with the concessional loan rates of other similar IFIs, grant element, [market, country needs], etc., to determine if CIF concessional loan rates need to be adjusted.</p> <p>Trustee (Investment) The Trustee continues to follow a conservative investment strategy in line with World Bank guidelines.</p> <p>Committees Committees could revise its decision to not participate in a new tranche which included a limited allocation to public developed market equities in order to increase portfolio diversification.</p>
Monitor & Report	<p>A critical component of the Tier 1 ERM Program implementation includes the proposed plan for reporting and communication process below:</p> <ul style="list-style-type: none">• MDBs use financial risk mitigation strategies and processes, including sound credit risk management processes based on best practices to evaluate projects;• MDBs report any defaults or losses related to project lending: arrears and loan non-repayment (e.g. a call on a guarantee);• Trustee provides status of arrears or non-repayments to the Committees;• If there are non-repayments, the Trustee will provide analysis of cash flows and projected losses of the Contributors to the Committees;• Trustee performs analysis of losses compared to tolerances and reports to Committees; also provides more timely updates to the Committees.• Committees annually review country and company credit profiles to assess overall portfolio credit risk;• Committees annually review CIF public loan terms vis a vis comparable terms of International Financial Institutions to determine if the loan terms need to be adjusted;• Committees annually review loss tolerance using CIF ERM Enterprise Portfolio Risk dashboard and provide updates as needed.

CIF Working Group Tier 1 Risk Register			
ID	5		
Risk Name	Asset & Liability Mismanagement (ALM).		
Risk Area	Financial		
Probability	2		
Impact	3		
TFC Tolerance	UK – High Germany - Low Spain - Low Canada - Exchange rate, low tolerance for CTF and high tolerance for SCF US – High Brazil – Low for exchange rate risk Spain - Low		
Risk Context	In the context of the CIF, Asset-Liability Management (ALM risk) is described as the risk of not having a systematic reporting mechanism to notify the Committees concerning liquidity, interest rate and foreign exchange risk management. ALM is composed of: (i) Liquidity risk; (ii) Interest Rate risk; and (iii) Exchange Rate risk. This risk occurs when the level of liquidity and or reserves are inadequate or fall below the minimum requirements. This results in the Trustee's inability to meet loan contributor contractual obligations (interest and principal payments) or obligations to MBDs.		
Residual Risk(s) Description	Liquidity risk may arise when the Trustee is unable to meet loan contributor contractual obligations (interest and principal payments) or obligations to MBDs.	Interest Rate risk arises from the market opportunity cost and interest rate mismatch between the underlying interest rate on the asset versus the liabilities: • The Committees have accepted the opportunity cost of market interest rates compared to concessional terms provided to recipients; • The recipient countries and companies may not accept the interest rate provided by the CIF due to the expensive nature of the transformational technologies; • This risk occurs when there is a mismatch between the interest earned on assets and the interest due on liabilities.	Exchange Rate risk can occur because: (i) the CIF holds non-USD promissory notes but commits to MBDs only in USDs and Euros; and (ii) USD dollars or Euros committed can be lent to recipients in local currency: • Promissory Note: The reserve to cover the FX loss between the USD value of the promissory note at the time of commitment by the Trustee and the time of encashment is not sufficient; • Private sector projects which require local currency loans cannot move forward because the CIF has not agreed to bear the risk of local currency loans. This may result in the following: the Funds not meeting CIF objectives (in the most efficient manner); projects cannot move forward since the CIF clients are not capable and/or willing to take the exchange risk; reputational impact.






Events (Triggers)	<ul style="list-style-type: none">• Liquidity: The agreed encashment schedules are not being met; MDBs not providing adequate / timely projections of when funds are required.• Interest Rate: Opportunity: Market rates significantly exceed CIF concessional terms to recipients; Timing mismatch between the interest earned on the assets and the interest due on liabilities.• Exchange Rate: Exchange rate of promissory notes move greater than tolerance and reserve; Projects, have requested lending in local currency where the CIF bears the risk and the decision is not taken due to lack of information.
Risk Response (with Responsible Party)	<p>Owner (Responsible Party)/Risk Response (Proposed Risk Action)</p> <p>Liquidity -Trustee The Trustee enhances its existing processes and controls in place to manage liquidity risk, including: reports to track when payments are made; controls in place leveraging IBRD Controller's processes to analyze liabilities; Trustee uses cash flow model to identify any shortfalls in liquidity. If issues are identified, the Trustee alerts the Committees. The Trustee provides the Committees the status of the liquidity risk in the semi-annual Committee Trustee Report.</p> <p>Interest rate/opportunity - Committees In the context of opportunity interest rate risk - the Committees have accepted this risk as a component of its founding principles; to meet the objectives of the CIF funds, concessional loans are required. (see paper for additional detail)</p> <p>Interest rate/timing mismatch - CIF Administrative Unit/Trustee</p> <ul style="list-style-type: none">• The CIF Administrative Unit working with the Trustee checks to ensure that the terms of outgoing financing from the CIF Funds are no more concessional than incoming financing;• While this mismatch may be negligible and offset, the Trustee evaluates and monitors the interest mismatch risk using the Funding Limit Model and provides the Committees with the Funding Limit Report;• The Trustee provides information to Committees on the amounts allocated by financing products: <i>Develop a permanent local currency solution.</i> <p>Exchange rate/promissory note - Trustee The Trustee mitigates this risk by reserving a portion of promissory note balances from commitments in accordance with the World Bank practices. The reserve is released once the foreign currency is received and converted to US dollars. The second risk is MDBs lending in local currency in which the fund bears the exchange rate risk.</p> <p>Exchange rate/local currency loans - Committees/Trustee</p> <ul style="list-style-type: none">• Committee to decide on interim measure to facilitate local currency lending in CTF and SCF.• Committee to authorize permanent local currency solution. One possible measure to manage this risk is that the Trustee can use hedging. The Committees would need to agree and specify their tolerances for the cost of collateral and transactional costs associated with monitoring derivative transactions executed by the World Bank on behalf of the CIF. In addition, contingency management policies, including handling of overdraft charges or penalties due to delays or non-payment of reflows, need to be agreed and established.
Monitor & Report	<p>A critical component of the Tier 1 ERM Program implementation includes the proposed plan for reporting and communication process below:</p> <ul style="list-style-type: none">• Liquidity - Trustee manage these risks with enhanced processes and procedures on a semiannual basis and Trustee reporting will provide status on liquidity to Committees;• Interest Rate – Trustee continues current mitigation processes; and• Exchange Rate – Dependent on the decisions of the Committees at the May 2013 Joint Meeting.

CIF Working Group Tier 1 Risk Register	
ID	6
Risk Name	Misuse of funds or other problems with project implementation.
Risk Area	Operational Financial Strategic
Probability	1
Impact	3
TFC Tolerance	UK - Low Germany - Low Spain - Low Canada - Low US - Low
Risk Context	The CIFs are disbursed through the MDBs to support effective and flexible implementation of country-led programs and investments. One of the underlying principles of this structure is that each MDB will use its own policies and procedures (including in respect of procurement of goods and services and reporting arrangements) in carrying out its responsibility for the use of funds transferred to it. The Standard Provisions of the CIFs (parargaph 8.2) set out that the Financial Procedures Agreements (between MDBs and Trustee) shall provide for this requirement and further that the MDBs are responsible for ensuring that funds transferred are used in accordance with the applicable decisions of the CIF Trust Fund Committees, including the purpose for which the allocations of the funds have been approved, and reporting to the CTF Trust Fund Committee on its activities in accordance with the terms of the CTF Governance Framework Document. Each MDB has robust procedures to mitigate against the risk of misuse of funds. However, there is no reporting process in place to ensure the TFC is informed of actual misuse of funds.
Residual Risk(s) Description	The risk of not having quality and timely information on misuse of funds or other significant problems with project implementation critical to the Committee’s decision making process.
Events (Triggers)	The specific event that serves as a trigger for this risk is the misuse of funds or other significant problems during the implementation and supervision phases. Additionally, identifying when there may be difficulties in meeting expected environment and social safeguards, and/or other reputational or compliance issues.
Risk Response (with Responsible Party)	Owner (Responsible Party)/Risk Response (Proposed Risk Action) MDBs Monitor use of funds and inform Committees (via the CIF Administrative Unit) in accordance with Committees’ requirements Inform relevant CIF committees (via the CIF Administrative Unit) if any difficulties in meeting expected environment and social safeguards, and/or other reputational or compliance issues similarly to how they inform their Boards. CIF Administrative Unit Share findings and lessons learned with Committees. Committees Establish clear policies and timelines for reporting misuse of funds to Trustee and CIF Administrative Unit. Once misuse of funds is reported, Committees will discuss and determine the appropriate course of action. Trustee Maintain a database (currently in place) of misuse of funds and provide a summary to the CIF Administrative Unit.

Monitor & Report	<p>A critical component of the Tier 1 ERM Program implementation includes the proposed plan below. This will enhance the current CIF Administrative Unit process in analyzing the health of the Funds and to report pipeline information and assess whether the implemented risk actions mitigated the risk effectively:</p> <ul style="list-style-type: none">• Trustee maintains a database of notifications of misuse of funds and CIF Administrative Unit reviews compliance with established reporting policies and timelines;• Once a year, as part of the overall review of risk register, Committees will assess compliance with the established reporting policies and timelines.
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CIF Working Group Tier 1 Risk Register	
ID	7
Risk Name	Misalignment between sources and uses of funds.
Risk Area	Operational Financial
Probability	3
Impact	3
TFC Tolerance	UK -Low to Moderate Germany - Low Spain - Low Canada - Low US - Moderate
Risk Context	<p>The misalignment between the sources and uses of funds risk focuses on the MDBs, the CIF Administrative Unit and the Trustee having information at the portfolio level sufficiently early in the cycle to monitor and ensure that the sources of funds match the uses of funds. Under CTF, the financing products and terms are based on the following principles regarding contributions:</p> <ul style="list-style-type: none"> • Contributors can provide funding as grants, capital contribution and concessional loans with IDA-like terms; • There will be no cross-subsidies among the contributors; • Outgoing financing from the CTF cannot be more concessional than incoming financing; • The CTF cannot blend financing from grant and capital contributions with financing from loan contributions, unless it is on terms no more concessional than the terms of the loan contributions or supports separate parts of a project (for example, grants for technical assistance and concessional loans for investment financing); • The CTF Committee is responsible for determining the terms of outgoing financing (bearing in mind principal and other financial management issues as determined by the Trustee), including financing and terms for the private sector; • All sources of funds will be co-mingled for administrative and investment purposes
Residual Risk(s) Description	Not having information at the portfolio level sufficiently early in the cycle to monitor and ensure that the sources of funds match the uses of the funds. This risk focuses on the MDB providing the CIF Administrative Unit and the Trustee with the expected category of financial product (soft vs. hard credits / grant) at the upstream portfolio planning phase. This may result in a breach of the funding limit rule or later stage project renegotiation.
Events (Triggers)	<p>The specific events that serve as triggers for the occurrence of this risk include:</p> <ul style="list-style-type: none"> • Delayed information on project funding terms; • Submission of program/project for approval/funding request that, if accepted, would cause misalignment of the funding limits; or • The Committees are not provided information when proposed project terms might affect future projects.
Risk Response (with Responsible Party)	<p>Owner (Responsible Party)/Risk Response (Proposed Risk Action)</p> <p>MDBs In the semiannual pipeline update, the MDBs need to report their estimates of the term buckets (75%/25%).</p> <p>CIF Administrative Unit Collects information, conducts analyses and present to MDB Committee.</p> <p>MDB Committee Reviews information to determine if the sources and uses of funding are in alignment. If the sources and uses are not aligned, the MDB Committee agrees on steps to ensure alignment.</p>

CIF Working Group Tier 1 Risk Register	
Monitor & Report	<p>A critical component of the Tier 1 ERM Program implementation includes the proposed plan (below). This will enhance the current CIF Administrative Unit process in analyzing the health of the Funds, reporting pipeline information, and assessing whether the implemented risk actions mitigated the risk effectively. These steps include:</p> <ul style="list-style-type: none">• As part of the pipeline updates review, the MDB Committee will assess the funding alignment analysis conducted by the CIF Administrative Unit;• In the context of that review, the MDB Committee will determine whether funds are appropriately aligned or not;• MDB Committee takes necessary actions to ensure alignment of funds.

<i>Risk 4</i>	High	Moderate	Low
Australia			
Bolivia			
Brazil			
Canada			
China			
Denmark			
Egypt			
France			
Germany			
Guyana			
India			
Indonesia			
Japan			
Kyrgyz Republic			
Maldives			
Morocco			
Netherlands			
Nigeria			
Norway			
Senegal			
South Africa			
Spain			
Sweden			
Switzerland			
Tunisia			
Turkey			
United Kingdom			
United States			
Yemen			

CTF-SCF/TFC. Climate Investment Funds Recommendation for Implementing Tier 1 Risks Paper Annex B: Illustrative CIF Portfolio Dashboards





Illustrative Data

April 2012

Climate Investment Funds

Enterprise Risk Dashboard

(Illustrative Figures & Metrics Used Throughout)

Program	Portfolio Summary		Risk Summary
	Pledges*	Approved Funding (\$M)	
CTF	\$5,154	\$2,329	
FIP	\$639	\$57	
PPCR	\$1,254	\$306	
SREP	\$505	\$46	

*Actual Value in US Millions as of Report Date

Scenario 1: Drill down to CTF Program with a focus on financial risks

Scenario 2: Drill down to CTF Program with a focus on strategic and operational risks

By selecting the hyperlinks or “drill downs”, one may navigate to more detailed program, financial, pipeline, or risk summary landing pages.

[Hyperlink](#) – Indicates Drill Down

Illustrative Data

Scenario 1: Drill Down to CTF Program with a Focus on Financial Risks

Financial Risk Presentation – Example Dashboards

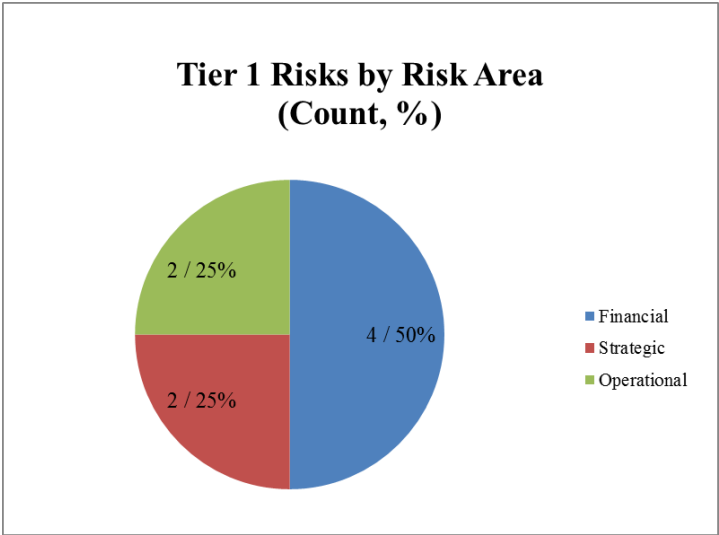
- **Risk 4: Portfolio Losses Exceed Tolerances**
 - A. Credit/Default
 - B. Investment/Market Losses
- **Risk 5: Asset and Liability Management (ALM)**
 - A. Minimum Liquidity Requirement
 - B. Interest Risk
 - C. Foreign Exchange
 - 1) Promissory Notes
 - 2) Local Currency Lending

Scenario 1: Drill down to CTF Program with a Focus on Financial Risks

Program Risk Dashboard & Detail

Illustrative Data

By Selecting the Risk Summary hyperlink on the Enterprise Risk Dashboard home screen, one may arrive at the Program Risk Dashboard.



Drill Down to Tier 1 Risk Detail







Risk ID	Risk Short Name	Risk Area	Probability	Impact
			3	2.5
			3	3
			3	3
4	Portfolio losses exceed tolerances	Financial	3	3
5	Asset - Liability Mismanagement (ALM)	Financial	1	3
			3	3
			3	3
Totals/Averages		7	2.5	2.9

Scenario 1 Risk 4: Portfolio Losses Exceed Tolerances

A) Credit Risk – View by Public/Private & Region







CTF Estimated Public Default Levels (Tolerances) vs. Actuals by Region

Figures in US Millions, Default Rates from 2011 GEMs Annual Report

Region	Tolerance	Actuals		Delta	Status
	Marginal Default Rate	Actual Default Rate	Rate		
Europe & Central Asia	1%	0%	0%	-1%	
Latin America & Caribbean	7%	0%	0%	-7%	
Middle East - North Africa	4%	0%	0%	-4%	
Africa	9%	0%	0%	-9%	
Asia Pacific	2%	0%	0%	-2%	
Totals/Averages	4%	0%	0%	-4%	

CTF Estimated Private Default Levels (Tolerances) vs. Actuals by Region

Figures in US Millions, Default Rates from 2011 GEMs Annual Report

Region	Tolerance	Actuals		Delta	Status
	Marginal Default Rate	Actual Default Rate	Rate		
Europe & Central Asia	2%	0%	0%	-2%	
Latin America & Caribbean	8%	0%	0%	-8%	
Middle East - North Africa	3%	0%	0%	-3%	
Africa	12%	0%	0%	-12%	
Asia Pacific	3%	0%	0%	-3%	
Totals/Averages	11%	0%	0%	-11%	

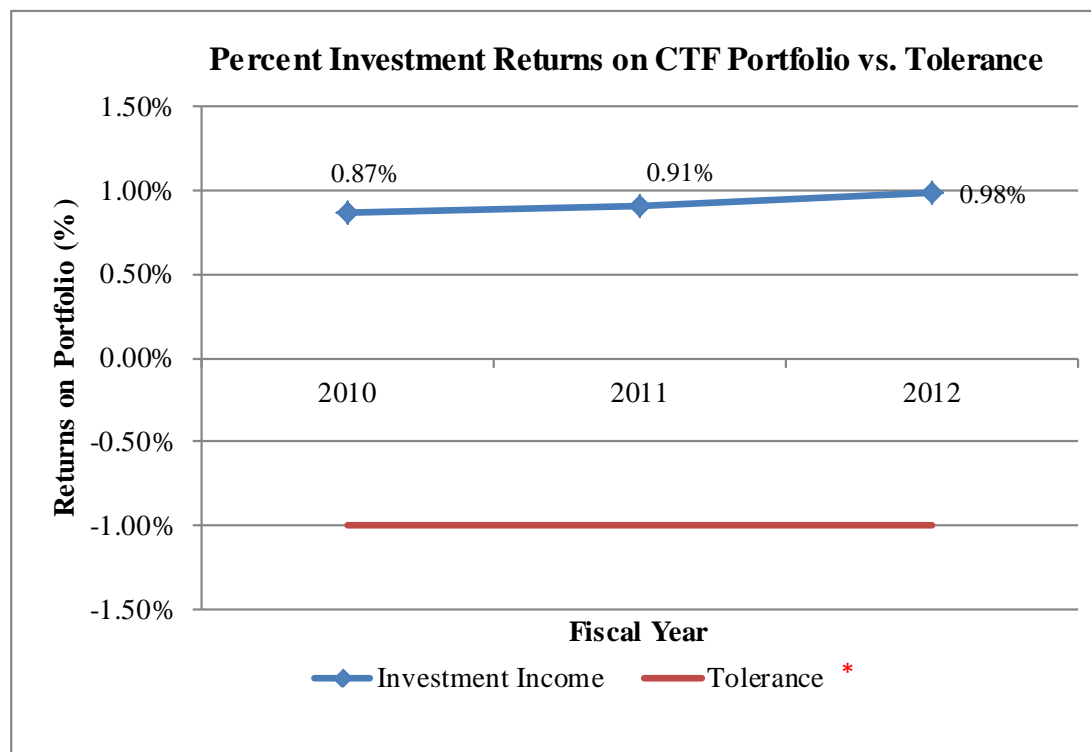
This dashboard displays Public/Private totals. The option to add hyperlinks to drill down to regional details is available.

Scenario 1 Risk 4: Portfolio Losses Exceed Tolerances

B) Investment/Market Losses

CIF Investment / Market Losses Risk Dashboard

*Tolerance - Negative Returns on Investment Portfolio May Not Exceed 1%



Risk Indicator (by Year):



* Based on World Bank investment guidelines and strategy

Illustrative Data

Scenario 1 Risk 5: ALM

A) Minimum Liquidity Requirement

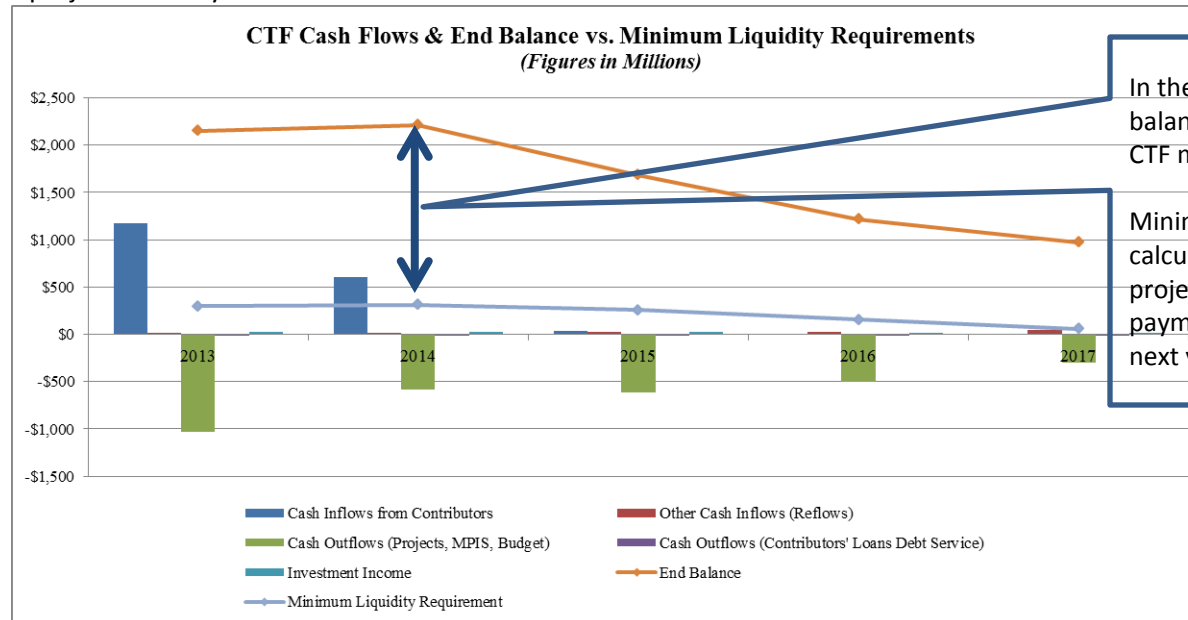
Minimum Liquidity Policy

100%	of projected next year debt service payment
50%	of projected next year disbursements

By Fiscal Year, \$US Millions

	2013	2014	2015	2016	2017
Beginning Balance (from Prior Year)	1,981.7	2,154.3	2,212.1	1,682.9	1,217.0
Cash Inflows from Contributors	1,174.8	603.1	39.1	-	-
Other Cash Inflows (Reflows)	11.2	19.4	25.9	30.3	49.5
Cash Outflows (Projects, MPIS, Budget)	(1,031.9)	(585.8)	(610.9)	(506.3)	(296.9)
Cash Outflows (Contributors' Loans Debt Service)	(8.1)	(8.3)	(8.3)	(8.3)	(8.3)
Investment Income	26.7	29.3	25.0	18.4	13.7
End Balance	2,154.3	2,212.1	1,682.9	1,217.0	975.1
Minimum Liquidity Policy Requirement *	298.1	310.7	258.5	153.7	60.2
Surplus/Deficit checker	1,856.2	1,901.4	1,424.5	1,063.3	914.9
Risk Indicator (by Year):	●	●	●	●	●

* Calculated as the sum of 100% of projected next year debt service payments and 50% of projected next year disbursements



Scenario 1 Risk 5: ALM,
B) Interest Risk

	CTF Public Loans		IDA Terms (2009)			IDA Terms (2012)		
Loan Terms	Softer	Harder	IDA Regular	IDA Blend	IDA Blend	IDA Regular	IDA Blend	IDA Blend
Maturity	40	20	40	25	35	40	25	35
Grace	10	10	10	5	5	10	5	5
Charge	0.25%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Interest Rate	0.00%	0.00%	0%	1.25%	1.25%	0%	1.25%	1.25%
MDB Fee/ Commitment Fee	0.10%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Scenario 1 Risk 5: ALM

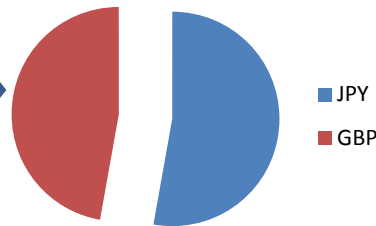
C.1) Foreign Exchange - Promissory Notes

Promissory Notes Balances

as of September 30, 2012



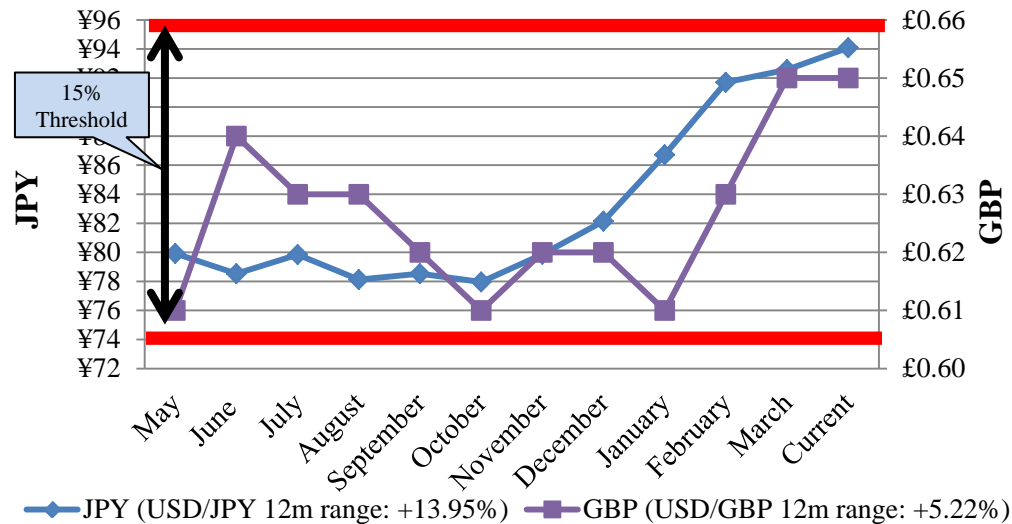
as of December 31, 2012



Financial Reserve Amount & Policy (Figures in US Millions)

\$713	\$713	15%
December 31st, 2012	Sept. 30th, 2012	

USD vs. JPY/GBP Fluctuation (12 Month Period)



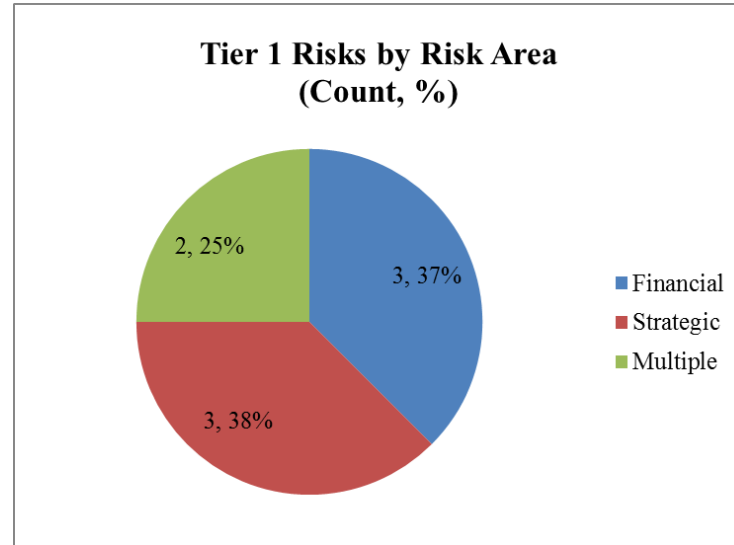
Scenario 1 Risk 5: ALM,
C.2) Foreign Exchange - Local Currency Lending – To Be Developed

Scenario 2: Drill Down to CTF Program with a Focus on Strategic and Operational Risks – Example Dashboards & Views

- **Strategic**
 - Risk 1: Committees may not make risk informed decisions
 - A. Portfolio information
 - 1. Program Pledge vs. Contributions
 - 2. Pipeline Portfolio Program View Current
 - 3. Pipeline Country View
 - B. Projected schedule of submissions for funding approval
 - 1. Current FY and Cumulative Project Approvals and Pipeline View
 - 2. By Year Project Approvals and Pipeline View
 - Risk 2: Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF) (to be developed)
 - Risk 3: Suboptimal use of CIF funds (to be developed)
- **Operational:**
 - Risk 6 : Misuse of funds or other problems with project implementation (to be developed)
 - Risk 7: Misalignment between sources and uses of funding

Scenario 2: Drill Down to CTF Program with a Focus on Strategic and Operational Risks – 1 Program Risk Dashboard

By Selecting the Risk Summary hyperlink on the Enterprise Risk Dashboard home screen, one may arrive at the Program Risk Dashboard.



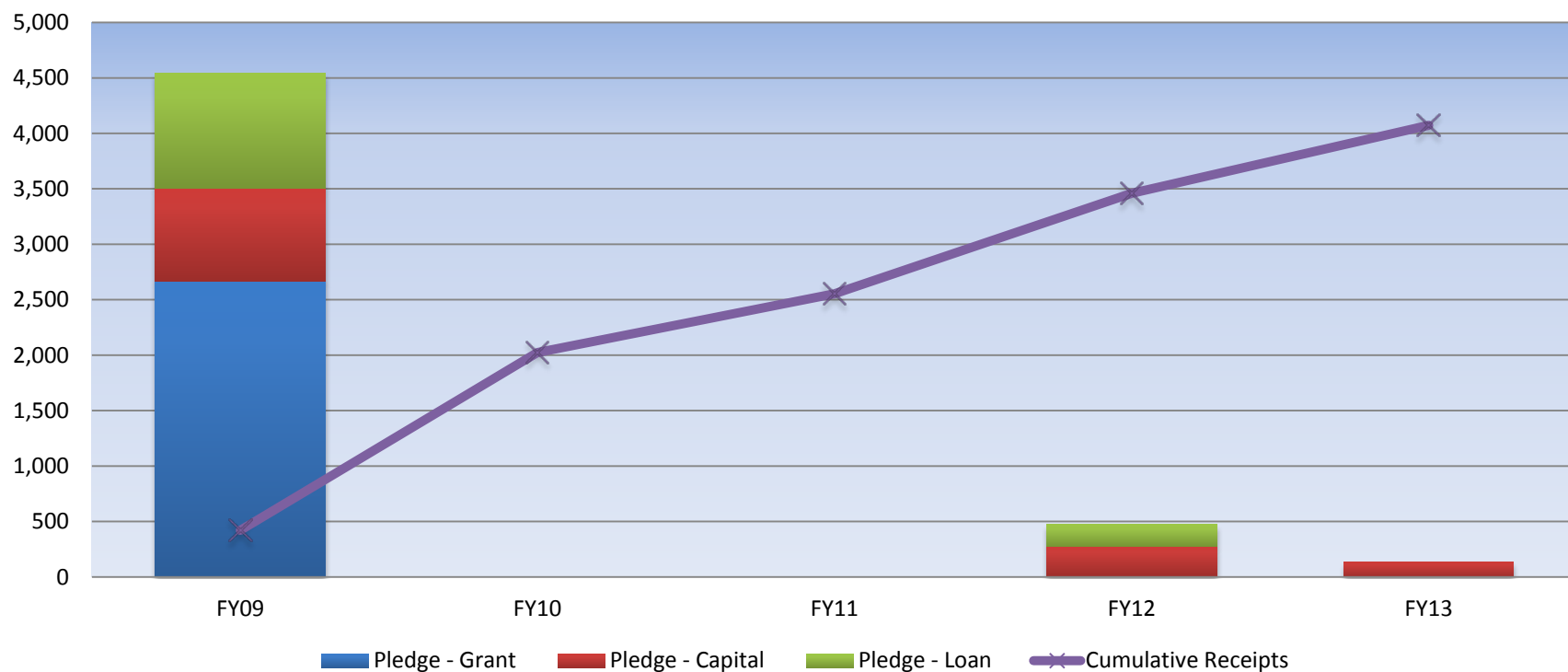
Drill Down to Tier 1 Risk Detail

Illustrative Data

Risk ID	Risk Short Name	Risk Area	Probability	Impact
1	Committees may not make risk informed decisions	Strategic	3	2.5
2	Inability to deliver the expected transformational impact (GHG savings for CTF, other goals for SCF)	Strategic	2	3
3	Suboptimal use of CIF funds	Strategic	3	3
[Decorative grid pattern]				
6	Misuse of funds or other problems with project implementation	Multiple	1	3
7	Misalignment between sources and uses of funding	Multiple	3	3
Totals/Averages		7	2.5	2.9

Scenario 2 Risk 1: Committees May Not Make Risk Informed Decisions

A.1 – Program Pledges vs. Contributions



Illustrative Data

Scenario 2 Risk 1: Committees May Not Make Risk Informed Decisions

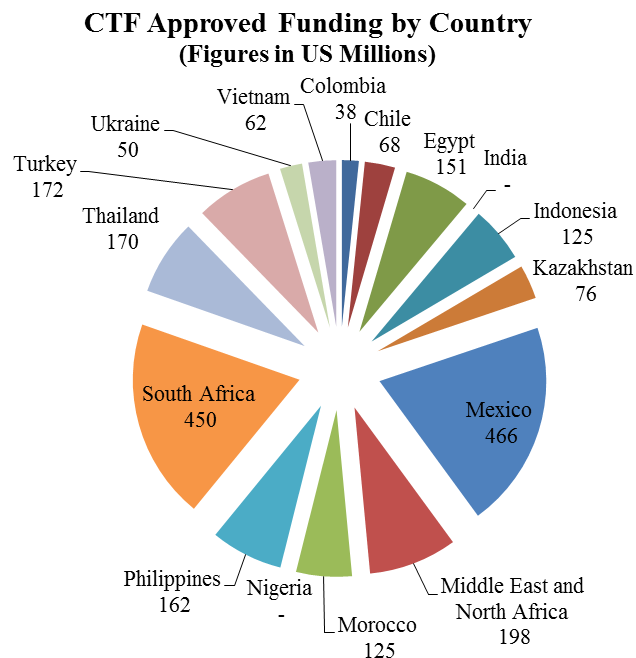
A.2 - Pipeline Portfolio Program View

Pipeline Portfolio View

High Level Statistics (\$M)	
•Initial FY Target (\$/%)	2803
•Revised FY Target	2500
•Actual Approvals	2313
• Expected FY Remainder	187
•Countries	
Colombia	38
Chile	68
Egypt	151
Indonesia	125
Kazakhstan	76
Mexico	466
Philippines	162
...	

One may select a country level view (see example for Philippines on next slide) or a categorical view like 'Expected FY Remainder' (see example in two slides).

The following three views show program level information for the selected entity, CTF.



Scenario 2 Risk 1: Committees May Not Make Risk Informed Decisions

A.3 -Pipeline Country View – Philippines

Investment Plan Information

(Figures in US Millions)

Endorsement Date:	December 1, 2009
Involved MDBs:	IBRD, ADB
Number of Projects:	3
CTF Funding:	
Endorsed Indicative Allocation:	132
Approved to Date:	132
Approval Rate (CTF Funding):	100%
Expected Co-Financing:	49

Key

Milestone Threshold / Traffic Light System		
Green	Yellow	Red
IP Endorsement to SC Approval		
<= 18 mos.	> 18 mos. & <= 24 mos.	> 24 mos.
SC Approval to MDB Approval		
<= 6 mos.	> 6 mos. & <= 9 mos.	> 9 mos.

(Figures in US Millions)

Projects	Philippines Renewable Energy Development	Cebu Bus Rapid Transit Project	Market Transformation through Introduction of Energy Efficient Electric Vehicles Project
Project Data			
Funding			
Grant	1.0	26.0	4.7
Soft Term Loan			100.0
Co-Financing			
Government			
Private Sector			
MDB			
Others	17.5	25.0	6.5
Implementing Agency	IBRD	IBRD	ADB
Investment Type	Public	Public	Public
Milestones/Traffic Light System			
SC Approval	Jul 11	Jul 11	Jul 12
MDB Approval	Nov 11	Dec 12	Feb 12

This dashboard reflects country level financial and pipeline information.

Scenario 2 Risk 1: Committees May Not Make Risk Informed Decisions

B.1 - Projected Schedule of Submissions for Funding Approval

Country	Project Title	MDB	Public/ Private	Financing Type	Sectoral Focus	Loan	Grant	SC Approval Date
Remainder of FY 2013								
March 2013								
1	Tunisia	Tunisia STEG CSP	AfDB	Public	Soft		25	Jun 12
May 2013								
2	Egypt	Egypt Urban Transport	IBRD	Public	Hard		50	Jul 12
June 2013								
3	Jordan	Jordan Maan CSP	IBRD	Public	Soft	Capacity Building	36.5	Nov 12
4	Philippines	Philippines Energy Efficiency	ADB	Public	Hard		24	Dec 12
FY 2014								
July 2013								
5	Tunisia	Tunisia ELMED CSP	IBRD	Public	Soft	Capacity Building	23.3	Dec 12
6	Turkey	Turkey Transmission -RE/EE Projects	IBRD	Public	Soft		50	Dec 12
7	Ukraine	Ukraine EE	IBRD	Public	Hard	Capacity Building	50	Dec 12

This view, navigable by selecting 'Actual Approvals' two slides previously, contains pipeline information for CTF.

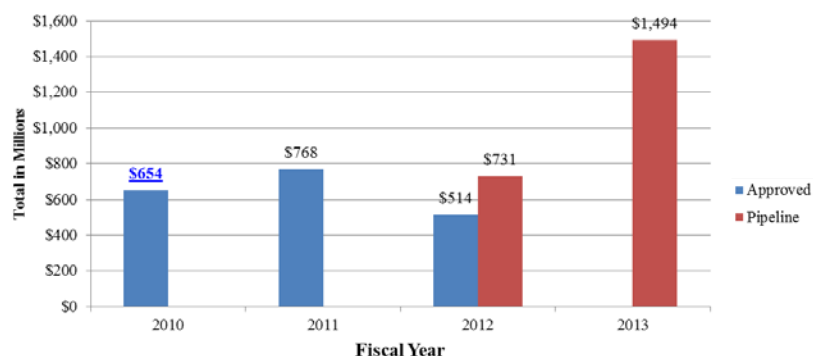
Scenario 2 Risk 1: Committees May Not Make Risk Informed Decisions

B.2 Project Approval Status, Amounts, & Pipeline

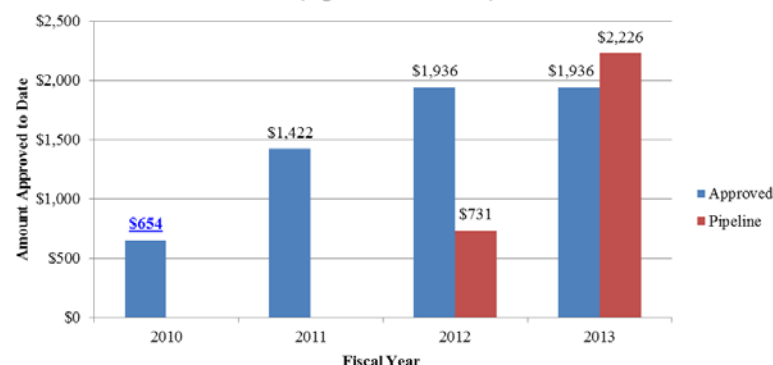
Select the hyperlink
on the figure for
2010 to view
project level details

*Select one of two below

CTF Project Totals by Year & Status
(Figures in US Millions)



CTF Cumulative Project Totals by FY & Approval Status
(Figures in US Millions)



CTF Project Drill Down - Approved Projects, Amounts, & Terms
(Figures in US Millions)

ID	MDB	Program / Project	TFC Approval Date	CTF Funding	CTF Private Funding	CTF Public Funding	Grant/TA	FEES	Loan Terms	Public/ Private
1	IFC	Private Sector Wind Development	Jan-10	\$ 15.6	\$ 15.0	\$ -		\$ 0.6	Market	Private
2	IBRD	Private Sector RE and EE Project	Jan-10	\$ 100.0	\$ -	\$ 100.0			Harder	Public
3	IFC	Commercializing Sustainable Energy Finance	May-10	\$ 21.7	\$ 20.0	\$ -	\$ 1.2	\$ 0.5	Market	Private
4	IBRD	Urban Transport Transformation Project	Oct-10	\$ 200.0	\$ -	\$ 200.0			Harder	Public
5	IDB	Renewable Energy Program	Nov-10	\$ 53.4	\$ 50.0	\$ -	\$ 1.5	\$ 1.8	Market	Private
6	EBRD	Turkish Private Sector Sustainable Energy	Jan-10	\$ 43.3	\$ 40.0	\$ -	\$ 2.4	\$ 0.9	Market	Private
7	IBRD	Wind Power Development Project	May-10	\$ 150.0	\$ -	\$ 149.8		\$ 0.3	Softer	Public

[Hyperlink](#) – Indicates Drill Down

Illustrative Data

Scenario 2 Risk 2: Inability to Deliver the Expected Transformational Impact, (GHG Savings for CTF, Other Goals for SCF) – To be Developed

Scenario 2 Risk 3: Suboptimal Use of CIF Funds To Be Developed

Scenario 2 Risk 6: Misuse of Funds
or Other Problems with Project Implementation – To Be Developed

Scenario 2 Risk 7: Misalignment Between Sources and Uses of Funding