

# CLIMATE INVESTMENT FUNDS

JOINT CTF-SCF/TFC.15/6  
November 2, 2015

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Meeting of the CTF Trust Fund Committee  
Washington D.C.  
Monday, November 9, 2015

Agenda Item 6

**RISK REPORT OF THE CTF AND SCF**

## PROPOSED DECISION

The joint meeting of the CTF and SCF Trust Fund Committees (TFC), having reviewed the document, CTF-SCF/TFC.15/6, *Risk Report of the CTF and SCF*, dated October 30, 2015,

- i. Takes note of the progress made in implementing and refining the ERM Framework.
- ii. Agrees that the Sr. Risk Management Officer should continue to finalize non-disclosure agreements and other arrangements with the MDBs to facilitate access to critical risk-related information so that deeper more thorough risk assessments and reporting will become possible.
- iii. Agrees that the Sr. Risk Management Officer should proceed with same systematic approach for implementing the ERM Framework for the subprograms under the SCF, defining the top-level risk and objective for each subprogram, as well as the Risk Categories, Tier 1 and 2 Risks and Risk Tolerances, and assessing risks against these tolerances.
- iv. Agrees that, in case of additional contributions to the CTF, the limit to which the CTF may over program will need to be revised.
- v. Agrees that the Sr. Risk Management Officer must be formally included as a mandatory recipient of information pertaining to the occurrence and details of non-payment events.
- vi. Takes note of the progress made in operationalizing the ERM Dashboard.

## I. INTRODUCTION

1. In February 2015, the CIF Administrative Unit (AU) hired a Sr. Risk Management Officer to oversee the implementation of the CIF's Enterprise Risk Management (ERM) Framework.
2. At the May 2015 CTF TFC meeting, it was agreed that the CIF AU would:
  - a. Continue the work on the ERM Dashboard to operationalize the dashboard as a reporting tool for key risk metrics by the end of November 2015 and to provide the Committee with an update on progress in this initiative.
  - b. Monitor and report on the margin between the CTF's projected net income and projected losses on outgoing CTF financial products on a regular basis via the ERM Dashboard.
  - c. Commence stress testing using the CTF's cash flow model to determine the effects of stressed scenarios on the CTF's projected net income and projected losses, and report the results on a quarterly basis through the ERM Dashboard.
3. This paper provides an update on the CIF AU work to implement and improve the ERM Framework by refining the risk classifications and list of Tier 1 Risks, and to begin identifying Tier 2 risks, as well as on the status of the operationalization of the ERM Dashboard.

## II. ERM FRAMEWORK UPDATE

4. The CIF AU is employing a systematic approach to implementing the CIF's ERM Framework, through establishing a multi-level risk hierarchy beginning with the definition of risk and leading to definitions of Risk Categories and more granular Tier 1 and 2 Risks. In doing so, the ERM Framework is being expanded and refined in a number of areas. While this paper focuses on the risk levels, tolerances and mitigants for the CTF, all but one<sup>1</sup> of the 13 Tier 1 Risks are applicable to the SCF as well.

### 1) Level 1 – Risk Defined

5. An essential first step for establishing the context and objectives of the ERM Framework is to define what risk is for the CTF.

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<sup>1</sup> The risk that loan contributions are used to finance loans and other financial products, such as guarantees, on terms more concessional than the terms of the loan contributions is only applicable to the CTF because the SCF has not received loan contributions.

***Risk is any threat to the achievement of the CTF's objectives.***

This definition, along with the definition of the CTF's objectives, establish the context for the entire ERM Framework. The CTF Governance Framework, defines the CTF's objective as,

***To provide scaled-up financing to contribute to demonstration, deployment and transfer of low-carbon technologies with a significant potential for long-term GHG emissions savings.***

## 2) Level 2 – Risk Categories Defined

6. The Tier 1 and 2 Risks are being classified according to the following four categories.

- a. **Strategic Risk:** Risks which affect or are created by the CTF's business strategy and strategic objectives.
- b. **Operational Risk:** The risk that inadequate or failed internal processes, people and systems or external events will adversely affect the achievement of the CTF's objectives.
- c. **Financial Risk:** The risk that exposure to credit, market<sup>2</sup> or liquidity risks will adversely affect the achievement of the CTF's objectives.
- d. **Compliance, Legal and Reputational Risk:**
  - i. *Compliance and Legal Risk:* The risk that failure to comply with laws, rules, regulations, contractual obligations, prescribed practices, or standards or codes of conduct will result in fines, civil monetary penalties, payment of damages, the voiding of contracts, or otherwise adversely affect the achievement of the CTF's objectives.
  - ii. *Reputational Risk:* The risk that a perception develops that the CTF is unethical or imprudent, adversely affecting the achievement of the CTF's objectives.

## 3) Level 3 – Tier 1 Tier 2 Risks

7. To improve their clarity and conciseness, the list of Tier 1 risks has been refined, which now includes 13 risks, and a process to identify and include Tier 2 risks has also begun.

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<sup>2</sup> Market risk refers to the risk that fluctuations in prices of traded assets and commodities as well as fluctuations in interest and exchange rates and other market indices, adversely affect the achievement of the CTF's objectives. As Tier 1 risks, credit and liquidity risks are defined later in the paper.

8. Risk levels are now being assessed based on their mappings to likelihood and severity of impacts (see Table 1), and risk tolerances are being defined so that risk assessments may be compared against risk tolerances to enhance decision-making.

**Table 1. Likelihood/Severity Risk Scoring Matrix**

		Impact		
		Minimal	Moderate	Severe
Likelihood	Very Likely			
	Likely			
	Possible			
	Unlikely			
	Very Unlikely			

9. This paper includes the CTF's responses to each risk which fall into one of the following categories, as well as descriptions of the risk responses where applicable.<sup>3</sup>
  - a. Accept
  - b. Mitigate
  - c. Transfer
  - d. Avoid
10. Efforts to identify additional risks, and drill down further into existing ones will be ongoing, and new risks will emerge as the environment in which the CTF operates changes. Not all risks are mutually exclusive (e.g. external events can affect a recipient's creditworthiness, interest rates can impact exchange rates, etc.), and where appropriate, the interactions between risks will be highlighted in the ERM Dashboard.
11. Highly confidential private sector loan-level information and credit risk assessments from most of the MDBs remain inaccessible to the Sr. Risk Management Officer at this point. However, the CIF AU and MDBs have been working for the past several months to draft non-disclosure agreements (NDA) or establish other arrangements to facilitate information-sharing at this level. As this information becomes accessible, deeper more thorough risk assessments and reporting will become possible.
12. The remainder of this section describes the CTF's Tier 1 and 2 risks, tolerances, potential impacts and risk responses.

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A. <sup>3</sup> If the risk response for a given risk is 'Accept', then no response details (actions) are usually unnecessary.

#### 4) Strategic Risks

##### 13. **1.1. Tier 1 Risk – Over-programming Risk:**

The risk that the CTF will not have sufficient resources to fund all endorsed projects.

- a. Risk Level = High but within tolerance
  - i. Likelihood = Very Likely
  - ii. Impact = Moderate
- b. Risk Tolerance = High
  - i. CTF TFC agreed to accept this risk and over-program by 30% of CTF pledged resources<sup>4</sup> to accelerate the implementation of viable projects rather than waiting until after unviable projects had been identified and cancelled.
- c. Impacts
  - i. Over-programming, if not addressed, may result in unmet recipient expectations, and damage to the CTF's reputation.
  - ii. As of September 30, 2015, available resources were insufficient to fund \$818 million of endorsed programs/projects.
- d. Risk Response = Mitigate
  - I. Risk Response Owner(s) = CIF AU and MDBs
    - 1. Continue to work to prioritize projects and identify inactive ones
    - 2. CTF restricted 15% of the value of non-USD/Euro denominated promissory notes to mitigate the risk of over-programming due to appreciation of the CTF's base currencies relative to the promissory notes' currencies (See Currency Risk below)
    - 3. CTF does not commit funds from uncashed promissory notes (See Pledge Risk below)
  - II. Status = Ongoing

**Proposed Mitigation Response:** In case of additional contributions to the CTF, the limit to which the CTF may over program should be revised.

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<sup>4</sup> See Proposal for further enhancement of the CTF pipeline management (April 10, 2013).

14. **1.2. Tier 1 Risk – Pledge Risk:**

The risk that donors fail to honor their financial pledges to the CTF leaving projects unexpectedly unfunded.

- a. Risk Level = Low and within tolerance
  - i. Likelihood = Unlikely
  - ii. Impact = Moderate
- b. Risk Tolerance = High
  - i. Rejecting pledges simply because they may not be fully honored would be more harmful to the CTF than accepting these pledges along with the risk that they may not be honored.
- c. Impacts
  - i. Fewer projects may be funded if pledges do not materialize.
  - ii. Approving projects which are to be funded by pledges which do not materialize, would aggravate over-programming.
  - iii. In September the CTF received another \$16.6 million from the US, reducing the outstanding pledges to \$170.7 million from \$187.3 million.

**Table 2. Outstanding Pledges Allocated to CTF as of September 30, 2015**

Contributor	Contribution Type	Pledged Amount Outstanding (million)	Currency	Anticipated Receipt
US	Grant	171	USD	Q3 F2016

- d. Risk Response = Avoid
  - iii. Risk Response Owner(s) = CIF AU

The CTF TFC only approves funding against cash or promissory notes  
(See Over-programming Risk above).

- iv. Status = Ongoing

5) Operational Risks

**15. 2.1. Tier 1 Risk – Misuse of Funds:**

The risk that a CTF-funding recipient uses CTF funds for an unauthorized purpose. This can include instances of misprocurement.

Note: CIF AU will inquire regarding the nature of the controls and reporting mechanisms for mitigating and monitoring this risk when the NDAs or other information-sharing arrangements with the MDBs are in place.

- a. Risk Level = TBD
  - i. Likelihood = TBD
  - ii. Impact = TBD
- b. Risk Tolerance = Low
  - i. The CTF is unwilling to tolerate misuse of funds.
- c. Impacts
  - i. Misuse of CTF funds depletes the resources intended to be used to achieve the CTF's strategic objectives.
- d. Risk Response = Mitigate
  - i. Risk Response Owner(s) = MDBs
    - 1. MDBs perform site visits and employ procedures for preventing, detecting and addressing fraud including misuse of funds.
    - 2. Funds for a given project or program are not disbursed in one lump sum upon approval, but in installments as project milestones are met.
    - 3. MDBs must inform the TFC of any instances where funds have been misused.
  - ii. Status = Ongoing

**16. 2.2. Tier 1 Risk – Model Risk:**

The risk that reliance on models to make decisions will impede the achievement of the CTF's objectives.



Note: CIF AU cannot access the full cash flow model until NDAs or other information-sharing arrangements with the MDBs are in place, but will seek to assess, report and monitor model risk when the necessary arrangements have been established.

- a. Risk Level = TBD
  - i. Likelihood = TBD
  - ii. Impact = TBD
- b. Risk Tolerance = Low
  - i. The CTF is unable to tolerate significant errors in liquidity forecasts.
- c. Impacts
  - i. The CTF relies on the Cash Flow Model primarily for asset/liability management. Unforeseen weaknesses in this model could impact the adequacy of the projected liquidity requirements for meeting the CTF's obligations (See ALM/Liquidity Risk below).
- d. Risk Response = TBD
  - i. Risk Response Owner(s) = TBD
  - ii. Status = TBD

**17. 2.3. Tier 1 Risk –External Events:**

The risk that external events (e.g. natural disasters, disease, war) will adversely affect the implementation and/or success of the CTF's projects.

- a. Risk Level = High but within tolerance
  - i. Likelihood = Likely
  - ii. Impact = Moderate
- b. Risk Tolerance = High
  - i. CTF targets recipients that are (or are domiciled in) developing countries, many of which are located in unstable regions, or regions highly susceptible to the impacts of external events.
- c. Impacts
  - i. An external event has made a CTF project unviable with no anticipated repayment of the outstanding obligations to the CTF related to the financing of this project.

**Table 3. Loan Losses Resulting from External Events**

<b>Date of 1<sup>st</sup> Missed Payment</b>	<b>Funding Amount (millions)</b>	<b>Principal Repaid to Date (millions)</b>	<b>Expected Recovery (millions)</b>	<b>% of CTF Funds<sup>5</sup></b>	<b>Product</b>	<b>Public/Private</b>
03/2015	€15.5	0	0	0.3	Loan	Private

e. Risk Response = Accept

v. Risk Response Owner(s) = NA

vi. Status = NA

Note: Depending on the circumstances, some of the same mitigants employed to mitigate credit risk may be used mitigate potential losses resulting from external events (See Credit Risk below).

#### **18. 2.4. Tier 1 Risk –Implementation Risk:**

The risk that an approved project is not implemented in a timely manner or at all.

Note: CIF AU will seek to report the following metrics when the NDAs or other information-sharing arrangements with the MDBs are in place which will require changes to the CTF pipeline management system.

- I. Aggregate funds allocated for projects that have been Effective for 36 months, AND for which < 20% of funds have been dispersed.
- II. Aggregate funds allocated for projects that are within 12 months of Closing, AND for which < 50% of funds have been dispersed.

a. Risk Level = TBD

i. Likelihood = TBD

ii. Impact = TBD

b. Risk Tolerance = Medium

- i. CTF targets recipients that are (or are domiciled in) developing countries, many of which possess characteristics (e.g. political and economic

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<sup>5</sup> Based on resources of \$5.328 billion from CTF Project Information System (CTF pipeline) as of September 30, 2015.

instability, lack of local level capacity and expertise) which heighten the level of implementation risk associated with CTF projects.

c. Impacts

- i. Committing funds to projects which are not implemented in a timely manner leaves funds unavailable for other projects which may have been promptly implemented, postponing the realization of the climate-related benefits which the funds were intended to achieve.

d. Risk Response = TBD

- i. Risk Response Owner(s) = TBD
- ii. Status = TBD

6) Financial Risks

19. **3.1. Tier 1 Risk –Credit Risk:**

The risk that a CTF financing recipient will become unwilling or unable to satisfy the terms of an obligation to the CTF, or that the value of an asset declines due to a deterioration in the creditworthiness of the issuer.

Note: CIF AU will seek to report metrics assessing this risk, when the NDAs or other information-sharing arrangements with the MDBs are in place, including the following.

- 1. Weighted average portfolio credit rating
- 2. Results of stress testing projected losses

a. Risk Level = TBD

- i. Likelihood = TBD
- ii. Impact = TBD

Proposal: Formally designate the Sr. Risk Management Officer as a mandatory recipient of information pertaining to the occurrence and details of loss events.

b. Risk Tolerance = High

- i. CTF targets recipients that are (or are domiciled in) developing countries, any of which are rated below investment grade.

c. Impacts

- i. Financing recipient's inability or unwillingness to repay disbursed funds to the CTF can postpone or prevent the implementation of the corresponding project(s), and leaves funds unavailable for other viable projects, postponing the realization of the climate-related benefits which the funds were intended to achieve.
- ii. Depending on the characteristics of the obligation, a default may also adversely affect the likelihood of full repayment of loan contributions.

**Table 4. CTF Net Income and Projected Losses**

	As Projected in						
	Dec-08	Mar-11	Dec-11	Dec-13	Jun-14	Dec-14	Jun-15
<b>CTF Net Income</b>	<b>285</b>	<b>392</b>	<b>308</b>	<b>232</b>	<b>231</b>	<b>183</b>	<b>180</b>
Investment Income	355	426	321	259	272	238	223
Assumption on Investment Income Return Rate, %	2.00	2.00	1.25	0.75	0.87	0.77	0.77
Assumption on Average CTF Cash Balance (till June 2028)	906	1,818	1,331	1,753	1,670	1,421	1,269
Budget Expenses	(70)	(63)	(74)	(77)	(96)	(108)	(109)
Interest Received on outgoing loans and guarantee fees in excess of 0.75%	-	29	60	50	55	52	66
<b>Potential CTF loss amount</b>	<b>59</b>	<b>319</b>	<b>221</b>	<b>193</b>	<b>112</b>	<b>111</b>	<b>117</b>
Average Loss rates, %							
Public sector	5	5	5	5	5	5	5
Private Sector	N/A	10	10	11	7	10	11
<b>CTF Net Income Excess over Potential Loss Amount</b>	<b>226</b>	<b>73</b>	<b>86</b>	<b>39</b>	<b>119</b>	<b>71</b>	<b>63</b>
as % of potential losses	384%	23%	39%	20%	106%	64%	54%
Potential Losses to CTF Net Income Ratio	21%	81%	72%	83%	48%	61%	65%

- i. External events have made a CTF project unviable with no anticipated repayment of the outstanding €15.5 million senior loan obligation to the CTF. This represents approximately 0.3% of the CTF's resources (see External Events above).

**Table 5. Credit Exposure and Losses**

Loan Portfolio Credit Risk Exposure						
Portfolio Risk Rating	Loans Outstanding (millions)	Estimated Default Probability	Estimated Losses Given Default	Projected Losses (millions)	Actual Losses (millions)	% of CTF Funds <sup>6</sup>
		%	%		€15.5	0.3

d. Risk Response = Mitigate

- ii. Risk Response Owner(s) = MDBs

<sup>6</sup> Based on resources of \$5.328B from CTF Project Information System (CTF pipeline) as of September 30, 2015.

- Assess and monitor the creditworthiness of loan recipients
  - Exercise collateral rights in the event of a default
- iii. Status = Ongoing/As needed

**20. 3.2. Tier 1 Risk – Currency Risk:**

The risk that fluctuations in the value of foreign currencies (non-USD/Euro) will adversely affect the achievement of the CTF's objectives.

**21. 3.2.1. Tier 2 Risk - Foreign Currency-denominated Promissory Notes:**

The risk that the value of the foreign currency in which a promissory note is denominated will decline before it is encashed.

- a. Risk Level = TBD
- i. Likelihood = TBD
  - ii. Impact = TBD

Note: The CTF is refining the way that it monitors this currency risk which will enable more detailed assessment, monitoring and reporting of this risk.

- b. Risk Tolerance = High
- i. The CTF will not reject payments in the form of promissory notes simply because they are not denominated in USD/Euro as would be more harmful to the CTF than accepting these payments along with the associated currency risk.
- c. Impacts
- i. The only remaining promissory notes outstanding are denominated in GBP. If the value of the GBP declines further, less funds will be available to finance new and already-approved projects.
- d. Risk Response = TBD
- i. Risk Response Owner(s) = TBD

While the Trustee restricts 15% of the amount of outstanding promissory notes to help ensure that current commitments to MDBs are met, this does not mitigate currency-related losses, and only serves to mitigate Over-programming Risk (See Over-programming Risk above).

- ii. Status = TBD

**22. 3.2.2. Tier 2 Risk – Foreign Currency-denominated Outgoing Loans:**

The risk that the value of the foreign currency in which outgoing loans are denominated will decline after the CTF has disbursed the loans.

- a. Risk Level = Low and within tolerance
  - i. Likelihood = Unlikely
  - ii. Impact = Minimal
- b. Risk Tolerance = Medium
  - i. MDBs made submit proposals involving financing in the form of local currency loans to the TFC for approval on a case-by-case basis.
- c. Impacts
  - i. The CTF has not financed any local currency loans to date.
- d. Risk Response = Accept
  - i. Risk Response Owner(s) = NA
  - ii. Status = NA

**23. 3.3. Tier 1 Risk – Interest Rate Risk:**

The risk that changes in the level of interest rates will adversely affect the achievement of the CTF's objectives.

**24. 3.3.1. Tier 2 Risk - Declining Interest Rates Reduce Short-term Fixed Income Investment Returns:**

The risk that declining interest rates reduce the returns from CTF's short-term fixed income investments.

- a. Risk Level = Low
  - i. Likelihood = Unlikely
  - ii. Impact = Minimal
- b. Risk Tolerance = Medium

- i. The CTF does not hedge (and therefore accepts) the impacts of declining interest rates on the returns from the CTF's short-term fixed income investments.

c. Impacts

- i. Declining returns from CTF's short-term fixed income investments have adversely affected the ability of the CTF to increase the margin over which CTF projected net income exceeds CTF projected losses, **however there is little room for rates to decline further.**
- ii. As interest rates rise, this risk may increase.
- iii. Presently the CTF investment portfolio has allocated over 80% to short-term fixed income investments (e.g. 3M LIBOR, and UST 0 – 1 year). This will decrease to 65% when the portfolio is rebalanced to accommodate an allocation (5%) to equities (See Annex 1).<sup>7</sup>

d. Risk Response = Mitigate

- i. Risk Response Owner(s) = Trustee
- ii. The Trustee may propose CTF investment portfolio reallocations, to the TFC to alter the exposure of the portfolio to interest rate risk (i.e. increase/decrease the duration of the portfolio).
- iii. Status = Ongoing

**25. 3.3.2. Tier 2 Risk – Rising Interest Rates Reduce Long-term Fixed Income Investment Values:**

The risk that rising interest rates will cause the value of the CTF's medium and long-term fixed income investments to decline.

a. Risk Level = Low

- i. Likelihood = Possible
- ii. Impact = Minimal

b. Risk Tolerance = Low

c. Impacts

- i. A decline in the value of the CTF's medium and long-term fixed income investments would cause the value of medium and long-term fixed income investments to decline.

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<sup>7</sup> Presently, allocations to 3M LIBOR and UST 0-1Y total 81%. When the portfolio is rebalanced, allocations to these short duration asset classes will decline to 65%.

- ii. **The Federal Reserve has indicated that it may raise interest rates in the US in the next 12 months.**
- iii. Presently the duration<sup>8</sup> of the CTF investment portfolio is one year. This is expected to increase to 1.6 years when the portfolio is rebalanced to accommodate an allocation to equities.

d. Risk Response = Mitigate

i. Risk Response Owner(s) = Trustee

- 1) The Trustee may recommend CTF investment portfolio reallocations, to the TFC to alter the exposure of the portfolio to interest rate risk (i.e. increase/decrease the duration of the portfolio).
- 2) Status = Ongoing

**26. 3.3.3. Tier 2 Risk – Declining Interest Rates Reduce Reflows from Outgoing Variable Rate Loans:**

The risk that declining interest rates reduce the reflows from CTF's variable rate loans.

a) Risk Level = Low

- vii. Likelihood = Very Unlikely
- viii. Impact = Minimal

Note: CIF AU will seek to report on the level of variable rate loans outstanding, when the NDAs or other information-sharing arrangements with the MDBs are in place.

b) Risk Tolerance = Medium

- i. The CTF does not restrict the use of variable rate loans for private sector projects, and does not hedge (and therefore accepts) the impacts of declining interest rates on the reflows from the CTF's variable rate loans.

c) Impacts

- i. Declining reflows would adversely affect the ability of the CTF to fund its objectives and to increase the margin over which CTF projected net income exceeds CTF projected losses, however, there is little room for rates to decline further.
- ii. Although the proportion of variable rate loans in the CTF portfolio remains unknown, these products are limited to the private sector.
- iii. This risk may increase if interest rates rise, **however there is little room for rates to decline further.**

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<sup>8</sup> Longer duration assets have greater negative price sensitivity to interest rate increases. Presently the CTF investment portfolio has allocated 17.5% to MBS with a duration of 4.3. Allocations to MBS and longer duration assets (e.g. UST 5 – 10 years, and TIPS 5 – 10 years) will increase to 26% when the portfolio is rebalanced to accommodate an allocation (5%) to equities.



- d) Risk Response = Accept
  - i. Risk Response Owner(s) = NA
  - ii. Status = NA

**27. 3.4. Tier 1 Risk – Asset Liability Management/Liquidity Risk:**

The risk that the CTF will be unable to meet its financial obligations (e.g. repay loan contributors, or disburse funds to MDBs) as they come due, or will be forced to sell investments below their true value to meet these obligations, adversely affecting the CTF's financial position.

- a) Risk Level = TBD
  - i. Likelihood = TBD
  - ii. Impact = TBD

Note: CIF AU will seek to assess, monitor and report on the CTF's liquidity risk when the NDAs or other information-sharing arrangements with the MDBs are in place.

- b) Risk Tolerance = Low
  - i. The CTF is contractually obligated to meet its financial obligations.
- c) Impacts
  - i. If the CTF fails to adequately manage exposure to ALM risk it could
    - 1) Fail to meet its repayment obligations to loan contributors, violating the provisions of the loan contribution agreements.
    - 2) Fail to meet its disbursement obligations to financing recipients, delaying projects or causing them to fail altogether.
    - 3) Incur reputational damage from the resulting perception that the CTF is unable to prudently manage its liquidity requirements.
- d) Risk Response = Mitigate
  - i. Risk Response Owner(s) = Trustee
    - 1) Maintains CTF Trust Fund cash balance above a prudential minimum liquidity level equal to CTF cumulative debt service payments for the next 12-month period plus projected 6-months disbursements to MDBs
    - 2) Does not permit illiquid investments
  - ii. Status = Ongoing

## 7) Compliance, Legal and Reputational Risks

### 28. 4.1. **Tier 1 Risk – Concessionality Mismatch between Loan Contributions and Outgoing Financial Products:**

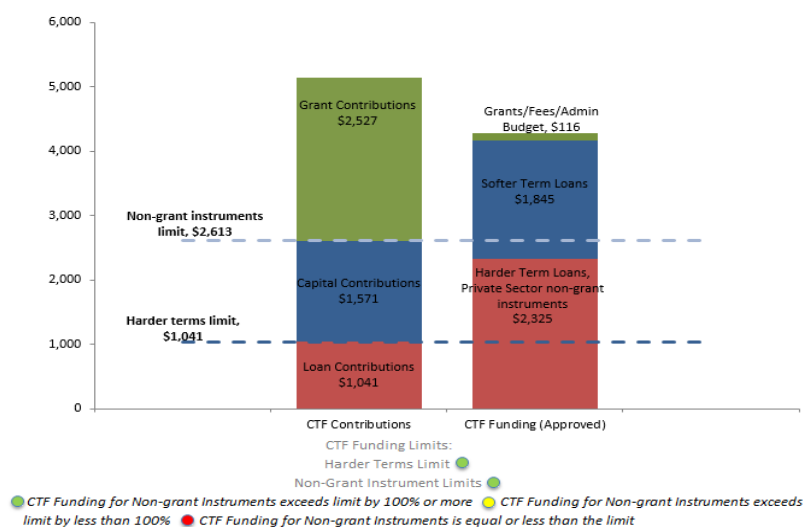
The risk that loan contributions are used to finance loans and other financial products, such as guarantees, on terms more concessional than the terms of the contributions (Note: this risk is only applicable to the CTF because the SCF has not received loan contributions).

a) Risk Level = Low

- i. Likelihood = Very Unlikely
- ii. Impact = Severe

Figure 1 illustrates that the amount of approved outgoing CTF financial products which have terms  $\leq$  concessional than those of the loan contributions, significantly exceeds the amount of loan contributions.

**Figure 1. Contributions vs. Outgoing Financing by Type as of June 30, 2015**



b) Risk Tolerance = Low

- i. The CTF is contractually obligated to use loan contributions only to finance projects on terms which are no more concessional than the terms of the loan contribution. The CTF may not breach its contractual obligations to loan contributors.

c) Impacts

- ii. Civil penalties, payment of damages, voiding of contracts, diminished reputation, limited business opportunities, lessened expansion potential

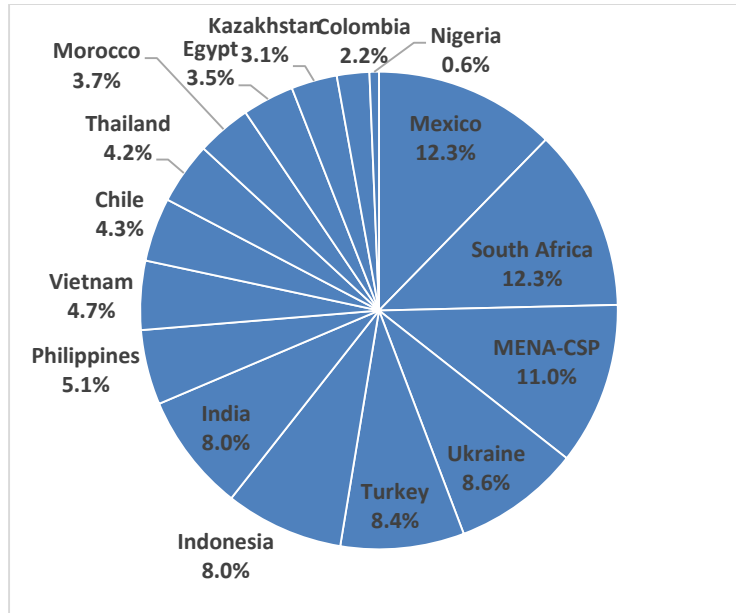
- d) Risk Response = Mitigate
  - i. Risk Response Owner(s) = CIF AU and Trustee
    - 1) Ensure that sufficient qualifying outgoing financial products (e.g. hard loans, and private sector loans and guarantees which are not classified as higher risk) are available to secure obligations to loan contributors.
  - ii. Status = Ongoing

#### **29. 4.2. Tier 1 Risk – Country Concentration Breach:**

The risk that a single country receives more than 15% of the CTF's resources.

- a) Risk Level = Low
  - i. Likelihood = Very Unlikely
  - ii. Impact = Moderate
- b) Risk Tolerance = Low
  - i. The CTF may not breach this obligation outlined in its governance framework.
- c) Impacts
  - i. Compliance breach
  - ii. Concentrated country exposure
- d) Risk Response = Mitigate
  - i. Risk Response Owner(s) = CIF AU
    - 1) CTF Operations Officer monitors projects during the approval process to ensure that this limit is not breached.
  - ii. Status = Ongoing

**Figure 2. TFC-Approved Funding by Country as of September 30, 2015**



**30. 4.3. Tier 1 Risk – CTF Investment Portfolio Contains Investments in Fossil Fuels:**

The risk that the CTF and/or its stakeholders will be perceived either imprudent or unethical because they permit undispersed funds to be invested in fossil fuels.

- a) Risk Level = TBD
  - i. Likelihood = TBD
  - ii. Impact = TBD

Note: The TFC will consider a proposal to implement an investment portfolio strategy incorporating ESG factors into its equity allocation at the November 2015 meetings. The investment portfolio currently holds no securities issued by fossil fuel companies.

- b) Risk Tolerance = TBD

- c) Impacts
  - i. Endowments, foundations and pension funds, whose primary mission is not necessarily climate-related, are increasingly announcing that they are decarbonizing their investment portfolios making it increasingly difficult to rationalize CTF holdings in fossil fuels.
  - ii. The CTF could be discredited by the perception that it invests in companies whose primary business is perceived to aggravate the very problem which the CTF professes to address (climate change).

- d) Risk Response = TBD
  - i. Risk Response Owner(s) = TBD
  - ii. Status = TBD

### III. ERM DASHBOARD UPDATE

2. The CIF AU, Trustee, and the World Bank's Information Technology group have been collaborating on the re-design of the existing functionality and data structures of the ERM Dashboard since June 2015.
3. The migration of the new software to the production environment has been delayed by a few weeks beyond the planned completion date of November 30<sup>th</sup>. This was due to challenges in (i) identifying the correct sources of data needed for the Dashboard and (ii) obtaining appropriate clearances to gain access to such data sources.
4. Additionally, during the process of gathering business requirements, the team identified that some information needed for the Dashboard is not being collected. The team is working to add the missing data elements to the FIF Collaboration Platform, which is the CIF's new data repository for storing projects and program information (e.g., the CIF pipeline).
5. Table 1 details the status of the Dashboard and the progress made to date:

**Table 6. ERM Dashboard Progress**

Work-stream	Deliverables	Status
Assessment of software needs	Leverage work carried out by WBG Enterprise Architect (EA)	Complete
Re-design of the visual design and navigation rules for the software	Building off the existing ERM Dashboard, develop new (i) site architecture; (ii) layout and navigation of the website; (iii) utility of the interactive website; and (iv) basic features such as fonts, colors, gradients, and images	Complete
Gather business requirements, including new required functionalities	Document high level requirements based on (i) analysis of the needs of the Sr. Risk Management Officer; and (ii) existing databases, applications, and financial models	Complete

Prepare technical and functional specifications documents	Based on business requirements: (i) identified data fields and definitions, business transactions, and user access roles; (ii) identified existing databases for downstream integration; and (iii) identified relational aspects of objects in the data model	In process (expected completion October 30 <sup>th</sup> )
Develop database to maintain CIF risk information	Building off the existing software of the existing ERM Dashboard, develop software to support data needs, functionality requirements, and reporting needs	In process (expected completion November 30 <sup>th</sup> )
Test new applications and output to the revised ERM Dashboard	User testing of (i) visual output and functionality of the ERM Dashboard; and (ii) data accuracy	Expected start date – December 2 <sup>nd</sup>
Launch new ERM Dashboard	Obtain approval by World Bank's Office of Information Security to move new software to production environment	December 15 <sup>th</sup>
Integrate ERM Dashboard with CIF Program Platform and relevant World Bank Enterprise Platforms	Link relevant data tables in other platforms to the ERM Dashboard to reduce the need for re-keying of data by users and to unify all data requirements in a single repository	Completion date to be determined – Under discussion with World Bank's Information Technology Teams

#### IV. ANNEX 1

##### CTF Alternative Asset Allocations

(Excluding Cash, as of September 30, 2015)

	3M Libor	UST 0-1Y	UST 1-5Y	UST 5-10Y	US MBS	Equities	TIPS 5- 10Y
<b>Current CTF allocation</b>	57.8%	23.6%	1.0%	0.0%	17.5%	0.0%	0.0%
<b>Projected CTF allocation with Model Portfolio 4 (*)</b>	48.9%	16.1%	4.9%	6.4%	15.1%	3.8%	4.8%