

November 15, 2013

**Comments from Germany on the Update of the CIF ERM Framework:
Development of a Portfolio Risk Dashboard**

Dear all,

Pls find below our comments.

We appreciate the progress in developing the Enterprise Risk Management Dashboard.

The design and the structure are very clear and the traffic light system in general gives a good indication of changes and challenges in the risk position of the CTF. We believe that in the design phase, it will become clear where information is lacking or where there are gaps, overlaps, etc, which might even lead to a review of the tier 1 risks.

GER would like to emphasize that the quality of the information provided through the risk dashboard will substantially depend on high quality input data and in particular a sound financial model laying behind the Risk Management Dashboard. In this context we were pleased to learn from the Report on the Financial Status of the CTF (p.6) that the Trustee is planning to conduct an in-depth assessment of the CTF cash flow model and to carry out necessary refinements to the cash-flow model. We consider this work on the financial model of particular importance giving the extensive discussion on new financial products such as local currency financing, risk guarantees, subordinated loans. Such products clearly have a higher risk profile as standard senior loans and as such need to be properly build into the model und subsequently into the Portfolio Risk Dashboard.

We have noted that the list of risks are in line with the decision “Updates to the Elaboration of an Enterprise Risk Management Program for the Climate Investment Funds,” dated August 22, 2013. Subsequently we did provide extensive comments on the ERM framework and the list of Tier 1 Risks. We are assuming that those comments are taken into consideration in the further implementation of the risk dashboard.

Before coming to a few specific comments on the list of risks, we would like to reiterate that the senior risk officer - as soon as he is hired - ideally has the chance to review and comment on the proposed ERM dashboard and suggest changes as he deems necessary.

We appreciate the statement that the document presented stresses that the risk dashboard should be designed in such a way that a refinement of Tier 1 Risks is possible.

During the design phase of the dashboard appropriate involvement of TFC members should be ensured, as is happening right now.

Specific comments / questions

As we had previously mentioned (in agreement with France and Canada), we would like to see risks/indicators/triggers to be clearly identified and to have mitigation responses to be included in the Risk Dashboard.

Risk indicators should provide early warnings in order to anticipate and manage the incidents. The frequency of the updates made to the risk dashboard in order to have timely information and to kick off mitigation measures as extremely crucial.

Comments on individual risks as they are currently presented:

Risk 2: Financial model risk: As discussed earlier, input data are crucial. In addition, we would like to understand how the credit default levels are defined for public and even more important private sector transactions. We would also like to see that a possible subordinated position relative to MDBs is to be taken into consideration.

Risk 3: Credit Risk: With respect to Risk 2 and 3, attention should be paid to serious rating down grades (e.g. changes in the political situation in North Africa) usually do not convert right away in loan losses, but should be closely monitored. Provisions to that extent should be made in the risk dashboard.

Risk 4:

4.a. Interest Rate Risk: The intention of the table is not really clear. If the intention is that one would be able to see, if CTF funds would lead to market distortion due to over-concessionality than a comparison with the loan conditions in the respective market / project would be helpful.

4b. Foreign Exchange Rate Risk: Currently seems to only relate to pledged funds. In addition, we would need 4c. in case the use of local currency is approved. This can take the form of a placeholder until the CTF TFC makes a final decision on the “use of local currency proposal” and to the extent that open currency position are involved.

Risk 5/6: Currently no further comment.

Annette Windmeisser

Germany

November 15, 2013

Comments from United Kingdom on the Update of the CIF ERM Framework: Development of a Portfolio Risk Dashboard

Dear Patricia

The UK would like to thank the CIF Administrative Unit, Trustee and MDB committee for their work to date in preparing the draft portfolio risk dashboard. We also look forward to the swift recruitment of the Senior Risk Management Officer.

With respect to the dashboard, we have the following comments and suggestions to guide preparation of the final version of the dashboard:

- The ultimate purpose of this tool from our perspective is to assure us that risks are being mitigated appropriately. To enable effective discussion by the Trust Fund Committee in future, it may help to summarise risk controls in the dashboard as well. This will help us identify whether particular controls are insufficient, particularly if risk metrics exceed their thresholds. At present the slides just include an explanation of what will happen when a threshold is breached.
- We want Trust Fund risk management to remain a dynamic process and avoid becoming locked into managing certain (financial) risks at the expense of others that are potentially more important to the overall success of the CIFs (particularly those risks related to achieving the outcomes / objectives of the CIFs). We would expect the final Dashboard to identify when specific Tier 1 risks will be closed and when other Tier 2 risks should be escalated.
- It would be useful to get a sense about the expected **future** RAG rating for the individual risks, as well as the historic RAG ratings. This could be combined with some overall commentary around how confident you are that the risk will be reduced towards this target. This will allow the Trust Fund Committee to consider whether specific risks will move above their threshold and remain there for long periods or whether this is just a temporary transgression. This would help the Committee to decide to what extent a red rating can be tolerated in the short term or whether immediate additional action is required.
- We would like to see some short Annexes at the end of the Dashboard that set out the Trust Fund Committee's risk appetite in relation to Strategic, Operational and Financial risks on one slide. We would also expect to see a summary of top Tier 2 risks and the direction of travel of these risks. We think this could be adequately captured on one slide as well.
- On market interest rate risk, are other Trust Funds the right benchmarks to be comparing CTF terms against? Should we also be comparing CTF terms against standard MDB lending rates. This allows us to determine the level of concessionality compared to standard MDB lending and whether this is too much or too little.

As ever, we are happy to discuss our comments further.

Kind regards

Sam Balch
United Kingdom