Green Climate Fund

Financial Risk Management Framework (Progress Report)

GCF/B.06/10
7 February 2014

Meeting of the Board
19-21 February 2014
Bali, Indonesia
Agenda item 12 (c)

Recommended action by the Board

It is recommended that the Board:

(a) Takes note of the information presented in document GCF/B.06/10 *Financial Risk Management Framework (Progress Report)*; and

(b) Provides guidance to the Secretariat concerning the Fund's financial risk management framework.

Financial Risk Management Framework (Progress Report)

I. Introduction

1. At its June and October 2013 meetings, the Board took a number of important decisions relating to the financial risk management framework of the Fund. Taking these decisions into account, this document sets out the conceptual foundations of the Fund's financial risk management framework, as well as monitoring and evaluation instruments for financial risk, and the governance framework under which financial risks will be managed.

2. It should be noted that, in addition to financial risk, the Fund will encounter certain other risks that its objectives, as set out in the Governing Instrument (calling for a paradigm shift in climate change mitigation and adaptation in developing countries), will not be achieved. These non-financial risks will not be considered in this document. Once full agreement has been reached by the Risk Management Committee and the Board on the financial risk management framework, this could be placed within a broader risk management framework.

II. Linkages with other documents

3. This document intends to present the basis of a comprehensive financial risk management system within the Fund's governance and structure. It has linkages and cross-cutting matters with the following documents and progress reports (each of which will be focused as closely as possible on its own topic to avoid redundancy and repetition):

(a) *Policies and Procedures for the Initial Allocation of Fund Resources* (GCF/B.06/05);

(b) *Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, including the Fund's Environmental and Social Safeguards, and Fiduciary Principles and Standards* (GCF/B.06/09);

(c) *Financial Terms and Conditions of Grants and Concessional Loans* (GCF/B.06/16);

(d) *Initial Results Management Framework of the Fund* (GCF/B.06/04);

(e) *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility* (GCF/B.06/02);

(f) *Investment Framework (Progress Report)* (GCF/B.06/11); and

(g) *Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding (Progress Report)* (GCF/B.06/08).

III. Prior Board decisions

4. The recommendations of this document will operationalize decisions B.04/08, paragraph (j), and B.05/04, paragraph (e), and assist the Risk Management Committee, as well as the Investment Committee to a different degree, in the performance of their duties.

IV. Purpose of the financial risk management framework

5. The overarching purpose of the Fund's financial risk management framework is to:

(a) Establish the overall level of financial risk the Board is willing to assume for the Fund in the pursuit of its objectives (the Fund's risk appetite or risk limit), to be reflected in the

Fund's investment framework that sets out the criteria for the process of funding approval for projects and programmes;

(b) Ensure that the risks assumed by the Fund lie within the Board-approved ceiling for the risk appetite at any given time, by monitoring, assessing and reporting the actual level of financial risk;

(c) Set the framework for portfolio management and approval of funding proposals on the basis of the Board-determined risk appetite and the level of actual risk assumed by the Fund; and

(d) Define the roles and responsibilities of different actors, and procedures, in the Fund's financial risk management.

4.1 Fund's risk appetite

6. The Governing Instrument defines the purpose of the Fund as follows:

> *"… the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change…"*[1]

7. In order to achieve a paradigm shift, the Fund needs to finance new and unconventional projects and programmes, or the scaling-up of conventional technologies new for the location. They would not be financed on the market, because of perceived or real risk, or lack of economic and financial viability due to their cost or insufficient revenue. By their nature, these activities and projects will at times assume a higher level of climate-related risk than conventional investments undertaken on the market.

8. The actual level of risk that the Fund will adopt will involve a trade-off between:

(a) **Excessive climate-related risk**, which, by funding an excessive amount of non-viable projects, would endanger the long-term viability and sustainability of the Fund (and therefore its mission); and

(b) **Insufficient climate-related risk**, which would mean that the Fund will not achieve its stated objective of promoting a paradigm shift in developing countries and will not be truly catalytic in relation to its partners and stakeholders.

9. One of the most important responsibilities of the Board in overseeing the overall operations of the Fund will be to determine what the "right" level of risk is and set the overall risk management framework within which the Secretariat will operate. By periodically reviewing the risk monitoring data prepared by the Secretariat, showing the actual level of financial risk assumed by the Fund, the Board will provide guidance to the Secretariat to make the necessary course corrections.

[1] Governing Instrument, paragraph 2.

V. Core elements of the financial risk management framework[2]

5.1 Identification and management of risk factors and sources

10. Conceptually, the financial risks assumed by the Fund will be threefold:

(a) **Asset-side risk**. The Fund's balance-sheet assets will be grants, concessional loans and other financial instruments as may be approved by the Board, extended to its accredited implementing entities (IEs) and intermediaries to fund climate mitigation and adaptation projects and programmes. For each project or programme there will be a risk-sharing arrangement between the Fund and the IE or intermediary, by which the Fund will assume a share of the project's or programme's risk, so as to fulfil its transformative mission. The degree of this risk sharing – which essentially corresponds to the Fund's risk appetite – will need to be discussed and agreed by the Board, based on the recommendations from the Risk Management Committee. All financial risks associated with such funding will be included in asset-side risk. In practice, asset-side risk needs to be reviewed on an aggregate or portfolio basis, in order to obtain an overall picture of the risk assumed:

(i) At the portfolio level, the high-risk projects and programmes financed by the Fund will be set off by other, lower-risk projects and programmes; therefore, in order to obtain a comprehensive picture of risk, the entire portfolio will need to be reviewed;[3]

(ii) As the Fund will not operate directly, but rely on other entities for project implementation, management and mitigation of risks at the project level will be the responsibility of intermediaries and IEs and executing entities (EEs). Therefore, the Fund will need to monitor and manage financial risk at the entire portfolio level.[4] The Fund will also have to ensure that intermediaries, and IEs and EEs are adequately monitoring and managing the risks of the projects for which they are responsible;

(b) **Liability-side risk**. The Fund's balance-sheet liabilities[5] will initially be constituted from grants, capital contributions and loans/credits the Fund has received from contributing countries. Foundations and private sector entities may contribute grants. At a later stage, it may also constitute other forms of contributions, including the capital raised from financial markets or other sources:

(i) Liability-side risks involve, inter alia: arrears in contributions relating to pledges received from partners; risks relating to foreign exchange and interest rate movements (as contributions may be in the form of credits and loans in different currencies); and the risk that the Fund's financial contributors do not honour their pledges;

(c) **Asset-liability mismatch risk**. A third type of risk relates to mismatch between the Fund's assets and liabilities, in terms of total grants received versus grants provided, borrowing and lending maturity, borrowing and lending interest rate, liquidity, and non-performing loan (NPL) rate. They will be managed through an asset-liability

---

[2] This document is based on the financial risk management frameworks of the World Bank, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), as well as best practices in corporate banking and investment funds. Where it differs from best practices of these institutions, this has been noted in the document.

[3] At the portfolio level, the expected loss (i.e. riskiness) is the average of expected losses of each project, weighted by financial volume of each.

[4] Including, inter alia, exposure to interest rate and currency risk.

[5] In the Fund's accounting framework, these liabilities will include the equivalent of shareholder equity, where equity will be equated to the grant contributions received (i.e. those with no repayment obligations).

management process within the Secretariat. In particular, the duration of the Fund's outstanding grants and loans (and other financial instruments) may not, in aggregate, exceed those of overall liabilities, as the Fund would otherwise face a liquidity risk. Similarly, the assessed NPL rate of the Fund's overall loans portfolio and grants portfolio must not exceed the total of capital, grants and loans it has received from its partners to avoid taking on undue levels of financial risk and to minimize the possibility that certain contributors' grant contributions serve to cross-subsidize loan repayments to other partners:

(i) If the average duration of grants and loans provided by the Fund exceeds that of the funding received from its partners, the Fund will run into cash flow problems (reimbursing its partners/creditors at a faster rate than it receives reflows from its borrowers);

(ii) If the average interest rate of loans provided by the Fund is lower than that of the funding received from its partners, the Fund will generate a negative net income and eventually become insolvent[6];

(iii) If the total volume of non-performing loans and grants awarded exceeds the total volume of grants received from its partners, the Fund will generate a negative net income and eventually become insolvent.

11. **Implications for the structure of funding received.** The rule contained in paragraph 10 (c) (iii) has important implications for the structure of funding (grants, capital or loans) the Fund receives from contributors. As a significant proportion of the financial support the Fund will provide through IEs and intermediaries will take the form of grants – notably for no-- revenue generating activities, such as strategies and studies, but also for many adaptation activities as well – it will be important for the financial viability of the Fund that it receives a significant proportion of its own funding from contributors in grant form or as capital. This proportion is difficult to estimate ex-ante, but it is reasonable to expect that the Fund will be providing close to half of its support to IEs and intermediaries in the form of grants. This implies that the grant financing it receives from contributors should exceed this amount.

12. **Cross-subsidization.** By its nature, and irrespective of the risk appetite set by the Board, the Fund will take on a certain degree of financial risk. NPLs represent an important part of this financial risk. A public or private sector lending institution (e.g. a bank or investment fund) cover their NPL and other financial risk through a capital cushion constituted by shareholder equity and retained earnings.

13. In the case of the Fund, there are three possible ways of covering NPL risk:

(a) Providers of grants to the Fund could take on all NPL risk (in effect, cross-subsidizing the providers of loans that would be assured of loan repayments);

(b) Lenders to the Fund could accept the possibility of a write-down of the value of their loans to compensate for potential NPLs; or

(c) The Fund could be endowed with a capital cushion to cover NPL risk. In practice, the potential providers of grants have signalled their unwillingness to consider cross-subsidization. Also, lenders are seldom willing to include write-down clauses in their loan agreements, and this is likely to be the case with loans to the Fund. Therefore, NPL risk will most likely have to be covered by a discrete capital cushion for the Fund.

14. It is unrealistic to expect a sufficient capital cushion to be constituted, at least initially, through retained earnings generated by a margin on the Fund's lending. (This is not feasible, or even allowed, in the lending institutions where prudential rules set minimum capital requirements for all incorporated lenders.) Therefore, given that the Fund intends to accept

[6] Or require an injection of new funding to avoid insolvency.

loans from its contributors, they must be accompanied by a capital contribution from the loan contributor to constitute the Fund's capital cushion.

15. The amount of this capital contribution would need to be set by the Board. Based on the indications from the banking industry, the amount of the capital cushion could be set at no less than 10 per cent of the outstanding loan portfolio. Given the riskier nature of climate-related lending, the Board may wish to consider a minimum capital cushion in excess of this amount.

16. In addition to the above categories of financial risk, the Fund will also work within the global financial and political environment which itself will present a certain risk. These risks will also need to be taken into account in the Fund's risk monitoring and management system.

Table 1: The Fund's financial risk categorization and management*

	ASSET-SIDE RISK	LIABILITY-SIDE RISK	ASSET-LIABILITY MISMATCH RISK
Aspect of the Fund's business	Funding extended to developing country entities to fund climate mitigation and adaptation projects and programmes • Grants • Concessional loans • Other financial instruments, as may be approved by the Board	Financial contributions pledged or received from partners • Grants • Capital contributions • Loans/credits	Mismatch between the Fund's assets and liabilities
Key nature of risks (non-exhaustive list)	• Counter-party risk: Counter-party evaluation, etc. • Implementation risk (non-performing borrower/intermediary or IE, as appropriate) • Technical risk (risky technology) • Market risk (price movements) • Foreign exchange risk, as may be approved by the Board (exchange rate risk, currency availability) • Country risk (war and civil disturbance, expropriation, breach of contract)	• Arrears in contributions • Foreign exchange movements in currencies held • Interest rate movements • Liquidity risk • Counter-party risk relating to the Trustee	• Maturity and tenor: mismatch in duration of funding received and funding granted • Interest rate: mismatch in pricing of funding received and granted • Currencies: mismatch in currencies of funding granted and received • Liquidity mismatch between assets and liabilities • NPL rate: aggregate NPLs and grants provided exceed grants received • Cross-subsidy risk: grants from certain contributors serve to cross-subsidize loan repayments to other partners

	ASSET-SIDE RISK	**LIABILITY-SIDE RISK**	**ASSET-LIABILITY MISMATCH RISK**
Core principles of prudent risk management	Asset-side risks need to be monitored and managed in aggregate, at the portfolio level At the project level, risks will be managed and mitigated by the IE or intermediary, as appropriate: • Risk assessment: Technical and financial appraisal to evaluate overall risk profile of project/programme • Implementation risk: Borrower/ implementer accreditation, third party guarantees of performance • Technical risk: Independent engineering review • Market risk: Hedging, contractual terms (e.g. take-or-pay) • Foreign exchange risk: Foreign exchange hedging, swaps • Country risk: political risk insurance (PRI)	• Arrears in contributions pledged: mitigated through contracts, backstop guarantees • Foreign exchange risk: mitigated through institutional exchange policy, hedging, swaps • Interest rate risk: mitigated through hedging, swaps • Liquidity risk: mitigated by the Trustee through cash management • Counter-party risk: Counter-party evaluation, performance guarantees/bonds	• Monitoring in real time of asset/liability match to avoid exceeding Board-established ceilings on maturity and tenor; interest rate; currencies; NPL rate • Ongoing asset-liability management process to track asset-liability mismatch

*Excludes global financial and political risks.

5.2 Quantification and measurement of financial risk exposure

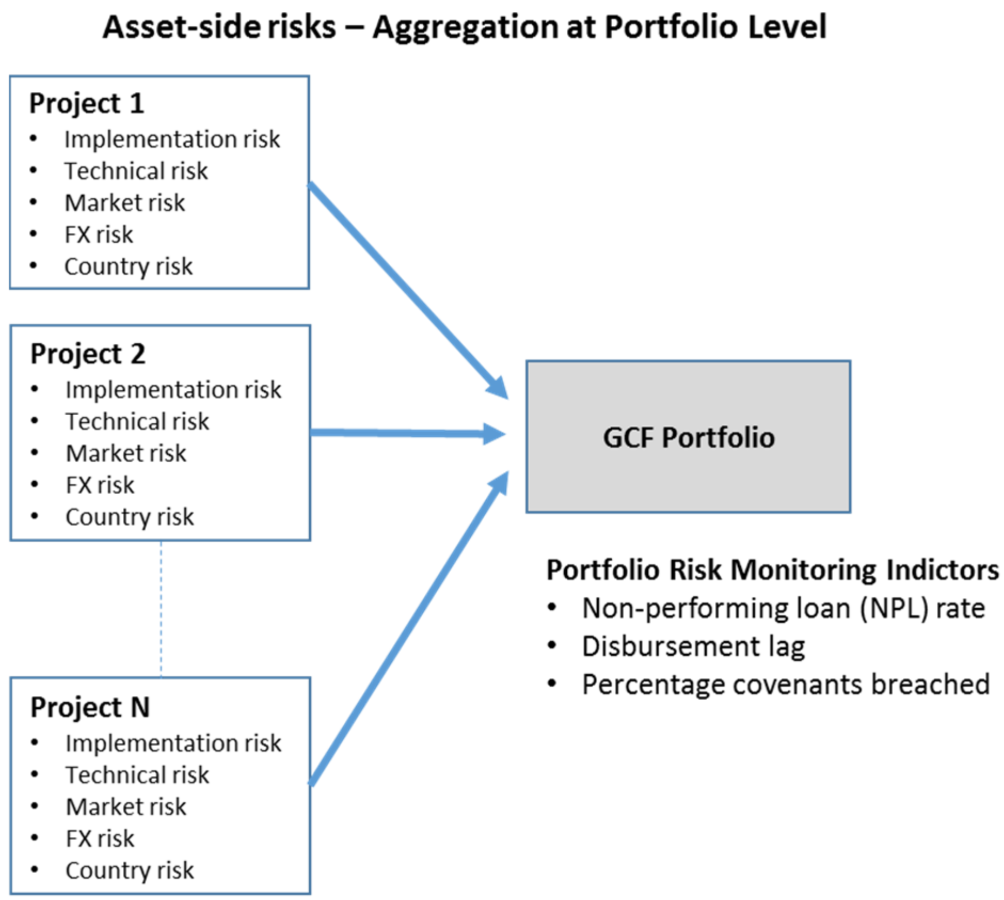
17. The quantification and measurement of financial risk exposure is the key responsibility of the Fund's Chief Financial Officer (CFO), and the Risk Manager in his/her team, under the guidance of the Operational Support Services Director and the Executive Director. The most important set of tools for this quantification are the Fund's accounting and financial management systems (both those managed in-house and those managed by the Trustee for its delegated responsibilities).

5.2.1 Asset-side risk

18. In order to obtain a clear view of asset-side financial risks and manage them effectively, all funded projects and programmes will be aggregated into the overall funding portfolio. As indicated above, each project or programme funded by the Fund will share risk with the IE or intermediary. To accomplish its transformative mission, the Fund will assume a significant share of the project's or programme's climate and other risk, provided adequate risk mitigation and controls are in place.

19. The risk profile of the entire spectrum of projects and programmes funded by the Fund will be monitored and managed aggregately, at the portfolio level.

Figure 1: Asset-side risks – Aggregation at the portfolio level



20. **Portfolio-level monitoring**: typically, a fund or other similar financial institution will rely on the rate of non-performing loans as the main, or sole, indicator/proxy for portfolio financial risk. In the case of the Green Climate Fund, it is proposed to monitor portfolio risk at a finer level of detail to allow early action in the case of deterioration of the financial quality of the portfolio. Examples of such portfolio quality indicators are:

(a) Rate of non-performing loans;

(b) Disbursement delay at the portfolio level (delay between aggregate commitments and aggregate disbursements);

(c) Percentage of covenants breached at the portfolio level; and

(d) Aggregate portfolio indicators will also be monitored, such as breakdown between IEs or intermediaries, sectors, instruments and regions, to measure cluster risk. A single country limit of five per cent of portfolio volume is recommended.

21. **Project- and programme-level monitoring**: As the Fund will not work directly, but through IEs and intermediaries, they will be in the best position to assess and monitor risk. Before the decision to fund a project or programme has been taken by the Fund, the riskiness of the project or programme will be assessed as part of the IE or intermediary's appraisal process. This assessment will be further reviewed as part of the second-stage due diligence undertaken by the Fund, before the project or programme is submitted to the Board for approval. This ex-ante risk assessment is described in document GCF/B.06/08. Implementing entities and intermediaries will be required to report back on an annual basis of the financial health of their Fund portfolios. They will also be required to request annual external audits from the sponsors

of the project or programme and forward these audits to the Secretariat. This information will be compiled in an annual portfolio review (see below).

22. **Tracking and mitigating asset-side counterparty risk**: The Fund's risk counterparties on the asset side are: national designated authorities (NDAs) and focal points; IEs and intermediaries; and possibly EEs. The most important asset-side counterparty risk management tool will be the accreditation process (see document GCF/B.06/09), the purpose of which is to determine whether the IE or intermediary under consideration possesses the control and compliance systems necessary to adequately circumscribe this risk, and the capacity to enforce the Fund's environmental, social and fiduciary requirements. In addition to initial accreditation, IEs and intermediaries holding Fund portfolios will be required to submit an annual external audit of their consolidated accounts and of their Fund portfolios.

5.2.2 Liability-side risk

23. Liability-side risks are much easier to quantify than asset-side risks, and can be monitored on a continuous basis. Arrears in contributions compared to pledges are quantified and monitored by the Trustee. Net foreign exchange and interest rate risks, after hedging and other mitigation actions, will be quantified and monitored by the Risk Manager, reporting to the CFO as part of his/her financing reporting system. Counter-party risk will be monitored using the counter-party's credit ratings (e.g. Standard and Poor's, Fitch, Moody's) with action triggered by a significant down-grade.

5.2.3 Asset-liability mismatch risk

24. As with liability-side risks, quantification and monitoring of asset-liability mismatch risk will be undertaken on a continuous basis by the Risk Manager, reporting to the CFO. This will include a comparison of weighted maturity and tenor of assets vs. liabilities (the former should always be inferior to the latter); incoming vs. outgoing cash flow projections; weighted pricing of funding received compared to funding granted (same as above); and currency mismatch after hedging and swaps. In addition, although a risk assessment will be undertaken up-front for each lending activity,[7] it will be important to track total outstanding NPLs and grants awarded against grants received, to ensure that non-performing loans do not jeopardize the Fund's capacity to service its debt vis-à-vis its partners.

5.3 Risk monitoring and reporting

25. **Financial risk management summary** (see example in Annex I): The Fund's financial risks will be spread across a wide range of financial reports, some of which are reviewed by the Board and the senior management on an annual basis only. In order to enable close monitoring and management of the Fund's financial risks, it is recommended that the CFO prepares a financial risk management summary that will bring together into one succinct report or dashboard (ideally on one or two pages) the quantification of the most important risks, with Board-imposed ceilings, if appropriate. The summary should be prepared and submitted to the Board not less frequently than on a quarterly basis, within 10 working days after the end of the reporting period.

26. **Financial risk register** (see example in Annex II): In addition to the summary of the Fund's financial risks presented quarterly, a more detailed risk register will present specific

[7] All projects and programmes funded by the Fund will undergo a two-stage appraisal process (one undertaken by the IE or intermediary and a second by the Secretariat) to evaluate and minimize activity-specific risk (see document GCF/B.06/08).

financial risks in each of the three risk categories outlined above. The risk register will be presented and reviewed by the Board on a yearly basis, along with annual financial statements.

27. **Financial statements** (balance sheet, income statement, funds-flow statement) will be prepared and reviewed not less frequently than on an annual basis and are an important tool for the monitoring of financial risk. The comparison of key financial ratios over time provides an indication of the overall financial health of the institution and allows for timely course correction.

28. **Annual portfolio review** based on submission of information from intermediaries and IEs, as outlined in the grant or loan agreements. This review will seek to identify leading indicators of financial risk within the portfolio, both to respond proactively and to adjust the Fund's grant and lending practice in consequence.

29. **Annual external audit** of the Fund's financial statements can provide, in addition to the veracity of the financial information submitted, some elements of the financial risk profile as viewed by a third party, which can in certain cases provide useful financial risk information to the Board. It should be underlined that this is not the principal purpose of the external audit.

30. **The Committee of Sponsoring Organizations of the Treadway Commission (COSO) risk monitoring self-evaluation**. In addition to the explicit financial risk areas and indicators outlined in this report and reviewed by the Board at the level of the financial risk management summary and the financial risk register, good practice dictates that a self-assessment of the risk control environment be undertaken on a regular basis (every second year, for example). Typically, this would use the COSO Internal Control Integrated Framework.[8]

31. The COSO Framework has been accepted by the United States Securities and Exchange Commission (SEC) as a framework for attesting to internal control over financial reporting, and comprises five main components: control environment, risk assessment, control activities, information and communication, and monitoring activities. The most recent COSO Framework (2013) articulates 17 specific principles spread across the five main components of internal control. Each principle is accompanied by explicit points of focus designed to help users evaluate whether the principle is present and functioning.

32. The COSO self-evaluation will be undertaken every two years at both the Secretariat and Board levels. The two assessments will subsequently be compared and reviewed by the Board to identify any residual gaps in risk perception. These gaps provide essential data to strengthen the financial risk monitoring and management framework.

[8] The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations and is dedicated to the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. See: http://www.aicpa.org/interestareas/businessindustryandgovernment/resources/corporategovernanceriskmanagementinternalcontrol/pages/coso_integrated_framework_project.aspx

Table 2: Risk monitoring and reporting

RISK MONITORING TOOL	FREQUENCY	PURPOSE
Financial risk management summary	Quarterly	Tracking in real time key financial risk indicators.
Financial risk register	Annually	Annual in-depth review of key risk events, management response and residual risk.
Financial statements	Semi-annually	Overall view of the institution's financial situation and its trend over time.
Portfolio review	In real time, with an annual portfolio report	Based on submission of information from intermediaries and IEs, it will seek to identify leading indicators of financial risk within the portfolio. Stochastic portfolio analysis and sensitivity analysis.
External audit report	Annually	In addition to accuracy of financial statements, it can provide a third-party view of financial health of the institution
COSO self-evaluation	Every two years	Scan of possible risk gaps not covered by the above-mentioned monitoring instruments.

5.4 Risk governance

33. Each of the different actors (CFO, the Secretariat's Risk Working Group, and the Board's Risk Management Committee) will have a different role to play:

(a) The **CFO**'s core responsibilities will be to maintain financial reporting systems and asset-liability management processes, supervise the Risk Manager, and liaise with the Trustee to ensure accurate and timely monitoring of financial risk. He/she will also have responsibility for the preparation of regular annual portfolio review for consideration by the Secretariat's Risk Working Group and the Board's Risk Management Committee;

(b) The **Secretariat's Risk Working Group** will review the level of financial risk compared to the ceilings set by the Board's Risk Management Committee, and make course corrections in specific funding decisions to align actual risk with them; and

(c) The **Board's Risk Management Committee** will recommend to the Board the risk ceilings (the Fund's risk appetite or risk limit), review compliance of these ceilings, provide feedback to the Secretariat on the levels of financial risk, and report back to the Board.

Table 3: Risk governance – Roles and responsibilities

	CFO (and Risk Manager)	Secretariat's Risk Working Group	Board's Risk Management Committee
Role and responsibility	• Preparation of financial statements • Preparation of annual portfolio reviews • Management of external audit processes • Supervision of the Trustee's financial monitoring • Preparation of periodic financial risk management summaries • Development of asset-liability management process	• Review of financial statements, portfolio review and summary • Adjustment of specific project and programme funding approvals to comply with Board-approved risk ceilings • Management of annual COSO risk self-assessment for the Secretariat	• Review of financial statements, portfolio review and summary • Recommend to the Board's approval the risk ceilings (the Fund's risk appetite or risk limit) • Review of compliance of the Fund's financial risk levels with ceilings • Guidance to the Secretariat on portfolio risk • Report back to the Board on financial risk • Management of annual COSO risk self-assessment for the Board

Annex I: Sample financial risk management summary

10/10/2014

Green Climate Fund

Financial Risk Monitoring Dashboard

Period Covered: Q3 2014

Key Financial Indicators for Period (Q3 2014)

Funding *	$ million
Total Funding as of June 30, 2014	80
Grants received during quarter	120
Loans received during quarter	190
Total funding as of September 30, 2014	390
(* On paid-in basis)	

Projects and Activities Funded	$ million
Total grants and loans as of June 30, 2014	0
Grants committed during quarter	80
Loans committed during quarter	100
Total outstanding grants/loans (Sept 30)	180

Admin Budget	$ million
Budget approved, 2014	27.0
Staffing	8.2
Travel	2.1
Overheads	2.7
Board-associated costs	4.9
Total expenses Jan-Sept	17.9
Remaining budget	9.1

Asset-Side Risk

Portfolio Volume Sept 30, 2014)	$ million
• Grants	80
• Loans	100
• Total	180

Portfolio Risk Monitoring Indictors

• Non-performing loan (NPL) rate	0.5%
• Disbursement lag	2.7 months
• Percentage covenants breached	2.5%

Liability-Side Risk

Arrears in Contributions ($ million)	This Quarter	Last Quarter
Total pledges received	500	250
Total contributions paid in	390	305
Net outstanding pledges	110	45
Foreign Exchange Movements		
Net gain/loss of booked liabilities over quarter ($m)	-4.2	-1.0
Interest Rate Movements		
Net gain/loss in booked liabilities over quarter ($m)	+2.1	-0.1
Net Liquidity Position		
Cash/ST assets available to fund commitments ($m)	210	90

Asset-Liability Mismatch Risk

Maturity and tenor	This Quarter	Last Quarter
Duration of funding received minus funding granted	127 months	109 months
Interest rate		
Interest rate diff. (funding received minus granted)	378 basis pts	422 basis pts
Currencies		
Currency valuation of funding received minus granted	+$3.1 million	-$1.2 million
NPL rate		
Grants received minus aggregate NPLs and grants provided ($ million) – must be positive	$49.5 million	$5.2 million

Annex II: Sample financial risk register[1]

	EVENT	RISK DIMENSION	INHERENT RISK	MANAGEMENT'S RESPONSE	RESIDUAL RISK
	I. Asset-side risk (portfolio level)				
1	Share of loan portfolio is non-performing (not reimbursed)	Financial entity's financial management	Financial viability of the Fund is jeopardized; the Fund unable to honour its own commitments vis-à-vis its partners	Debt workout with borrowers; reduction in risk of new loans granted; other financial remedies (loan acceleration, collateral calls, etc.)	Certain loans will have to be written off
2	Share of loan commitments does not disburse	Implementation risk	The Fund does not fulfill its mission to channel funding to worthwhile projects	Capacity support provided to intermediaries and IEs	Certain non-disbursing loans or grants will have to be cancelled
3	Share of loan proceeds misused by borrower	Reputation risk	Misuse of Fund resources will jeopardize further funding contributions from partners	Third-party due diligence of potential partners	Sanctions will have to be applied to certain Fund clients (cross-debarment with multilateral financial institutions)
	II. Asset-side risk (project and programme level)				
4	Project or programme poorly implemented	Implementation risk	Borrower/intermediary or IE does not have capacity to perform. If funding is concessional loan, project sponsor cannot reimburse	Intermediary or IE carries out project appraisal	Project or programme fails Loan may have to be written off
5	Technology does not perform	Technical risk	Technology not proven or not appropriate, project cannot reimburse loan	Intermediary or IE carries out third party engineering review	Technology does not perform as expected Loan may have to be written off
6	Sales price insufficient	Market risk	Price movements affects project viability adversely and therefore borrower reimbursement capacity	Hedging, contractual design (take-or-pay contracts, tariff indexing) To the extent possible, some risk-sharing with intermediary	Underlying project is not financially viable Loan may have to be written off

[1] Inspired in part by the Enterprise Risk Management Framework Report for the Climate Investment Funds (CIF), prepared by Booz Allen Hamilton, October 2012, but significantly simplified.

7	Adverse foreign exchange movements	Foreign exchange risk	Exchange rate movements affect project viability; currency for investment or reimbursement may not be available	Hedging, cash reserve held in lending and reimbursement currencies Some risk sharing with intermediary	Underlying project is not financially viable Loan may have to be written off
8	Country events affect project adversely	Country risk	War and civil disturbance, expropriation, breach of contract will jeopardize project viability and loan reimbursement capacity	Political risk insurance obtained through MIGA or Lloyd's market for equity and loan commitments	Value of PRI compensation payments inferior to loan commitments
	III. Liability-side risk				
9	Partner does not honour pledge	Counter-party risk	Financial viability of the Fund is jeopardized; the Fund unable to honour its own commitments vis-à-vis its partners	Management must not commit funding for projects until funds fully paid-in by partners	Partner relationship
10	Partner makes contribution in form of foreign exchange-denominated promissory notes	Foreign exchange and counterparty risk	Devaluation reduces value of note; note not honoured by financial institutions	Foreign exchange-denominated promissory notes valued at discount to book value in Fund accounts	Value of promissory note declines to zero Value of contribution from partner declines
11	Partner makes contribution in form of loans	Financial risk	Risk of the Fund not being able to honour its financial commitments (debt service, loan covenants)	The Trustee monitors and reports regularly to the Risk Management Committee on the Fund's debt portfolio (funding received)	The Fund defaults to partner
12	Information from the Trustee concerning pledges inaccurate	Financial risk	In case of shortfall, funding not sufficient to meet the Fund's commitments	Third-party audits of the Trustee accounts The Risk Management Committee sets ceiling on the Fund's aggregate commitments below aggregate paid-in grants and loans	The Fund unable to honor certain of its commitments to its borrowers
	IV. Asset-liability mismatch risk				
13	Maturity and tenor mismatch	Timing risk	Duration of funding granted exceeds duration of funding received	The Risk Management Committee sets ceiling on the Fund's aggregate loans at each maturity Real-time liquidity management by CFO	Funds flow problems in the outer years if sources of funding decline over time

14	Interest rate mismatch	Loan pricing risk	Aggregate pricing of loans received exceeds pricing of loans granted	The Risk Management Committee sets floor on the Funds' aggregate loans at each price Real-time liquidity management by CFO	Fund runs a net loss on its income statement Fund's financial sustainability at risk
15	Currency mismatch	Foreign exchange risk	Value of currencies received declines vis-a-vis loan commitments made	Hedging, cash reserve in appropriate currencies	Cash shortfall in certain currencies Fund runs a net loss on its income statement The Fund's financial sustainability at risk
16	NPL rate exceeds Fund paid-in capital and retained earnings	Financial risk	Aggregate NPLs and grants provided exceed paid-in capital received from partners and retained earnings	Reserve cushion constituted composed of paid-in capital and retained earnings to offset potential NPLs	The Fund exhausts capital cushion to cover NPL portfolio
17	Cross-subsidy between contributors and partners	Stakeholder risk	Grants from one contributor finance reimbursement of loans from another	Active management of asset-liability mismatch risk through asset-liability management process	Funding sources decline, notably of contributions in the form of grants
	V. Global financial environment risk				
18	Risk of major global financial or political event	Financial risk	Global event reduces borrower capacity to repay, jeopardizing the financial viability of the Fund	The Risk Management Committee reviews global financial environment and provides guidance to the Secretariat	Fund's financial viability thrown into jeopardy
19	Political support for the Fund wanes	Stakeholder risk	Partners unable to commit to adequate funding	Board members report on political environment and provide guidance to the Co-Chairs and the Secretariat	Funding sources decline; the Fund's relevance brought into question
20	Civil society support not forthcoming	Stakeholder risk	Credibility of the Fund called into question	Board members report on civil society support for the Fund and provide guidance to the Co-Chairs and the Secretariat	The Fund no longer a credible actor in climate change arena