



**GREEN
CLIMATE
FUND**

Meeting of the Board
28 - 30 June 2016
Songdo, Incheon, Republic of Korea
Provisional agenda item 21

GCF/B.13/29

7 June 2016

Report on the proposed revision of the risk register

Summary

At its twelfth meeting, the Board requested the Risk Management Committee to review the probability, impact and resulting priorities of potential risks prior to the thirteenth meeting of the Board. Moreover, the Board indicated that the risk register will be updated at least once a year. This document presents the proposed revision of the risk register.

I. Introduction

1. The Board, through decision B.12/34, adopted the risk register as contained in annex XXIII to decision B.12/34 (annex XXIII to document GCF/B.12/32) and requested the Risk Management Committee (RMC) to review the probability, impact and resulting priorities of risks prior to the thirteenth meeting of the Board. Moreover, the Board indicated that the risk register will be updated at least once a year.
2. In addition, the Board requested the Secretariat to monitor and report to the Board at each Board meeting any changes in the priorities of the risk register.

II. Linkages with other documents

3. This document has linkages to the following document:
 - (a) Document GCF/B.12/17 titled “Initial risk management framework: risk register, risk appetite update and Initial risk guidelines for credit and investment.

III. Objective

4. The purpose of this document is to report to the Board that the RMC reviewed the proposed revision of the risk register and concluded that the proposal was reasonable. Therefore, the RMC recommends that the Board adopt the proposed revision of the risk register as contained in annex II. The RMC also recommends that the Board change the risk register update interval from “at least once a year” to “as frequently as the Risk Management Committee deems necessary, but no less frequent than once every three years”, due to the fact that the risk environment in which the GCF operates evolves as a result of external events, changes in the mix of instruments deployed by the GCF and other strategic priorities.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.13/29 titled “Report on the proposed revision of the risk register”:

- (a) Notes that the Risk Management Committee reviewed the proposed revision of the risk register and concluded that the revision was reasonable; and
- (b) Decides that the risk register will be updated as frequently as the Risk Management Committee deems necessary, but no less frequent than once every three years.

Annex II: Technical note from the Risk Management Committee - updated risk register

I. Introduction

1. In decision B.12/34, the Board adopted the risk register and requested the Risk Management Committee to review the probabilities, impacts and resulting priorities of risks prior to the thirteenth meeting of the Board. This technical note was compiled to provide an approach and rationale that estimates the probabilities, impacts and resulting priorities in the risk register.

II. Definition

2. **General definitions.** Risk is potential event that can threaten the achievement of organizations' objectives. Organizations take various actions to control risk within their risk appetite and risk tolerances. Risk that exists before organizations take mitigating actions is termed inherent risk, whereas risk that remains after control measures are taken is termed residual risk. A risk register is a documented collection of the risks impacting an activity or the organization, as well as the mechanisms in place to identify, analyse and evaluate the risks. It can be used to assess the relative priority of the risks and to take control actions to mitigate them. For each risk, the following parameters are identified:

- (a) Triggers: Key events¹ the occurrence of which could lead to the risk materializing;
- (b) Probability and impact: The assessment, based on empirical evidence, qualitative tools or expert judgment, of the likelihood of the risk event occurring and, if the risk event occurs, the overall impact on the organization;
- (c) Mitigation: Mechanisms in place to reduce the probability of occurrence, or to reduce the impact of, each type of risk if it were to occur. Potential mitigation measures include policies, procedures, internal controls and analytical tools;
- (d) Priority: The relative importance to the organization of each risk based on the combination of probability of occurrence and impact;
- (e) Key risk indicator: The parameter used to measure the level of risk that materialized; and
- (f) Owner: The unit or individual within the organization mainly responsible for managing each risk.

III. Purpose and use of the risk register

3. The risk register is a documented collection of the risks impacting an activity or the organization, as well as the mechanisms in place to identify, analyse and evaluate the risks. It can be used to assess the relative priority of the risks and to take control actions to mitigate them.

4. The risk register has two primary functions:

¹ Given the inherent uncertainty of risks, this is a non-exhaustive list. The proposed risk register for the GCF identifies the top three potential triggers.

- (a) To verify the existence of risk mitigation measures for each of the risks that the GCF faces. The identification of triggers (**what could lead to the materialization of the risk?**) informs the design of mitigation measures (**what could prevent those triggers from materializing the risk?**). Good mitigation measures must be aligned with the triggers to ensure that the GCF is seeking to control each one of the potential sources of risk; and,
- (b) To provide a framework in order to define the appetite with respect to each risk subcategory.

IV. Proposed approach

5. There are two types of risk; inherent risk and residual risk. Risk that exists before an organization takes mitigation actions is inherent risk, and risk that remains after control measures are taken is residual risk. The objective of risk management is to maintain the residual risk level within risk appetite and tolerance set by the board of an organization.

6. Ideally, the probability and impact of risk (and the resulting priority also) need to be based on the actual risk/loss events of the GCF. In such cases, the GCF can observe the risk probability and impact from its historical risk data, thereby directly arriving at risk priority. However, many of the estimates of risks will always be based on "expert judgment" since some of the risk types will occur very rarely so as to allow the development of a meaningful historical database with any level of statistical significance.

7. As a start-up organization, the GCF does not have its own historical data, making it inevitable that it will rely on experts' professional judgment as a starting point. Therefore, it is useful to follow the flow of logic from inherent risk to residual risk considering mitigation measure.

8. The draft risk register being proposed for Risk Management Committee review (appendix I) presents the parameters described above for each risk category and subcategory in the risk dashboard approved by the Board at its tenth meeting. Table 1 illustrates the actual procedures used to arrive at the priority, using as an example one of the risk subcategories, namely **reputational risks** arising from business practices and results:

- (a) The **probability** and **impact** for inherent risk have been estimated as "somewhat likely" and "somewhat disruptive", respectively, based on expert judgment without taking into account the mitigation measures in place; and
- (b) The **priority** for inherent risk is assigned using the priority grid approved by the Board as part of the risk dashboard (this grid is included at the end of the document), and it is effectively the result of combining the probability and impact of occurrence as an estimation of the importance of such risks.

9. The GCF takes various mitigation measures to control risk. Mitigation measures are designed to reduce the probability of a risk event occurring, or the impact of a risk, once it occurs.

10. The mitigation measures in this subcategory are more related to mitigating impact rather than reducing probability. Therefore, the **probability** for residual risk remains at the same level as the inherent risk probability, whereas the **impact** for residual risk is assigned one level below the inherent risk impact level.

11. Accordingly, the resulting priority for residual risk is lowered from "High" to "Medium".

Table 1. Risk register illustrative example

Risk code		2.1
Risk category		Reputational
Triggers		2.1.1 Ineffective dissemination of results delivered by GCF-supported projects/programmes, including presenting added value with respect to other financial partners; 2.1.2 Overly complex procedures to access GCF funding or failure to communicate in simple language the steps to access such funding; and 2.1.3 Slow decision-making processes at the Board, Secretariat, accredited entity or country levels
Subcategory		Business practices and results
Description		Events or issues that have a materially adverse effect on the credibility of the GCF in developing countries or with contributors, accredited entities or civil society organizations. This includes the GCF being perceived as lacking added value, being over bureaucratic, not adhering to countries' priorities or managing its resources poorly
Inherent risk	Probability	Somewhat likely (SL)
	Impact	Somewhat disruptive (SD)
	Priority	High(H)
Mitigations		Communications strategy (in progress), including the approach to disseminating results, internal processes manuals (in progress), readiness programme, accreditation process, Country Programming outreach, financial management processes of the GCF, media monitoring, participation of observers in Board meetings
Residual risk	Probability	Somewhat likely(SL)
	Impact	Somewhat non-disruptive(SND)
	Priority	Medium(M)
Key risk indicator		Percentage and number of negative media reports related to this risk subcategory (as opposed to positive and neutral); periodic survey of NDAs, AEs and observers
Owner		Board, Executive Director, Directors and Chief Financial Officer

Abbreviations: AEs = accredited entities, NDAs = national designated authorities.

Table 2. Priority table

Impact Probability of occurrence	Low (L)	Somewhat non- disruptive (SND)	Somewhat disruptive (SD)	High (H)
Low (L)	Low priority	Low priority	Low priority	Medium priority
Somewhat unlikely (SU)	Low priority	Low priority	Medium priority	Medium priority
Somewhat likely (SL)	Low priority	Medium priority	High priority	High priority
High (H)	Medium priority	Medium priority	High priority	Very high priority

Source: document GCF/B.10/07 titled "Initial risk management framework: methodology to determine and define the Fund's risk appetite".

4.1 Probability of occurrence:

- (a) High – highly likely to occur within the next 12 months;

- (b) Somewhat likely – would not be surprising if it occurred within the next 36 months;
- (c) Somewhat unlikely – would be surprising if it occurred within the next 36 months; and
- (d) Low – highly unlikely to occur within the next 36 months.

4.2 Impact

- (a) High – a material adverse impact that could impede the franchise’s ongoing viability and/or its ability to meet its strategic objectives;
- (b) Somewhat disruptive – an adverse impact that would be disruptive to the viability of the GCF and/or its ability to meet its strategic objectives;
- (c) Somewhat non-disruptive – a relatively contained adverse impact that could impact the financials of the GCF and/or its ability to meet its strategic objectives by up to 10 per cent; and
- (d) Low – minimal and contained impact.

V. Results of the review

12. After reviewing the reasonableness of the priorities of the risks contained in the risk register approved by the Board, the Secretariat found that some changes to the register are necessary. The suggested changes are summarized in appendix II.

VI. Action needed

13. The GCF needs to gather risk data to help to develop a more elaborate risk register based on the actual experience of the GCF.

14. The risk register will be updated as frequently as the Risk Management Committee deems necessary, but no less frequent than once every three years, due to the fact that the risk environment in which the GCF operates evolves as a result of external events, changes in the mix of instruments deployed by the GCF and other strategic priorities

Appendix I: Risk register

I. Strategic risk

Risk code		1.1	1.2
Risk category		Strategic	Strategic
Subcategory		Climate impact and results	Concentration
Description		Failure to deliver the expected transformative mitigation and adaptation climate impact as defined by the objectives, investment criteria and the results management framework of the GCF	Concentration on a limited number or types of accredited entities (AEs) or geographies that fail to generate the required balance in mitigation/adaptation; pipeline of projects/programmes
Triggers		1.1.1 Low scale of total mobilized funding by the GCF (including co-financing from other sources); 1.1.2 Ineffective use of resources due to poor overall GCF strategy or poor choice of projects/programmes to fund, undermining sustainable development; and 1.1.3 Insufficient demand for GCF resources	1.2.1 Poor outreach or an excessively complicated accreditation process limits interest from entities to be accredited leading to reliance on a limited number of them; 1.2.2 Pipeline management and approval process fail to adequately balance projects/programmes by AE/geography/financial instrument/thematic areas, and adaptation allocation towards least developed countries/small island developing States and African States; and 1.2.3 Inability of direct access entities to generate projects fitting the criteria of the GCF due to a lack of capacity, including insufficient readiness support
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	High (H)	High (H)
	Priority	High (H)	High (H)
Mitigation		Internal governance, investment criteria, results management framework, monitoring and evaluation, specifically ensuring that levels of impacts are quantified according to accepted methodologies in mitigation and adaptation, while acknowledging that any graduation of risk is difficult due to the uncertainty around reducing warming levels and the effectiveness of adaptation measures resource mobilization, country programming outreach efforts, readiness programme, and the accreditation process	Portfolio reports, including concentration levels (on the profile of AEs, levels of approved funding, countries, instruments and project typology), to inform Board decisions on accreditation and funding approval and the Secretariat on pipeline development. Investment criteria, etc.
Residual risk	Probability	Somewhat unlikely(SU)	Somewhat unlikely (SU)

	Impact	Somewhat disruptive(SD)	High (H)
	Priority	Medium(M)	Medium(M)
Key risk indicator		Portfolio management overall annual assessment, including measurement of the core adaptation and mitigation indicators agreed in decision B.07/04	Herfindahl-Hirschman Index for AEs/ percentage distribution by number of projects and financial resources by geographic location and adaptation versus mitigation
Owner		Board, Executive Director and Directors	Board, Executive Director and Directors

Risk code	1.3	1.4	1.5
Risk category	Strategic	Strategic	Strategic
Subcategory	Portfolio management	Accountability	Country ownership
Description	Failure to build an optimal portfolio of projects/programmes as defined by the initial results management framework of the GCF	Failure of governance to enable and make timely decisions in corporate affairs or to respond to guidance from the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP)	Failure to develop a portfolio of projects and programmes that is fully aligned with country priorities and strategies; that fosters the involvement of local actors; and that is consistent with the country's debt sustainability framework
Triggers	1.3.1 Weak oversight by AEs, national designated authorities (NDAs) and the GCF on delivery of GCF investments and weak enforcement of remedial actions on low-performing projects; 1.3.2 Poor application of the results management framework to measure the evolution of GCF-level results and adjust the pipeline and portfolio accordingly; and 1.3.3 Ineffective identification (by the GCF, AEs, NDAs or other partners) of investment opportunities with strong paradigm shift potential	1.4.1 COP guidance that is difficult to operationalize/translate into specific policies; 1.4.2 Inability to take timely decisions due to overloading of meeting agendas and lack of efficient Board meeting proceedings; and 1.4.3 Failure to implement and/or develop procedures to address, inter alia, decision-making in the absence of consensus and between meetings	1.5.1 Failure of the GCF to incorporate NDAs/focal point guidance, including due to their having limited capacity because of lack of support from the GCF; 1.5.2 Failure of the GCF to operate consistently with each country's debt sustainability framework; and 1.5.3 Insufficient GCF support to projects generating high local impact and empowerment of local stakeholders, including local communities, indigenous people and civil societies
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	High (H)	High (H)
	Priority	High (H)	High (H)

Mitigation		Second-level due diligence process based on data from the AEs; the independent Technical Advisory Panel; active oversight in portfolio management; monitoring and evaluation; and remedial actions when projects do not perform	Board procedures, intersession decision-making arrangements and procedures for decision-making in the absence of consensus (under development)	Country programming outreach process to NDAs/focal points; GCF readiness programme; no-objection process from NDAs/focal points; second-level due diligence
Residual risk	Probability	Somewhat unlikely (SU)	Somewhat unlikely (SU)	Somewhat unlikely (SU)
	Impact	High (H)	High (H)	High (H)
	Priority	Medium (M)	Medium (M)	Medium (M)
Key risk indicator		Analysis of portfolio distribution and linkages to observed GCF-level impacts on mitigation and adaptation	Delay in days between the presentation of a proposed decision to the Board and actual decision-making; assessment of divergence between COP guidance and actual Board decisions	Qualitative assessment from NDAs
Owner		Board, Executive Director and Directors	Board	Board, Executive Director and Directors

II. Reputational risk

Risk code	2.1	2.2	2.3
Risk category	Reputational	Reputational	Reputational
Subcategory	Business practices and results	Unexpected shocks	Accredited entities and other partners' activities
Description	Events or issues that have a materially adverse effect on the credibility of the GCF in developing countries or with contributors, accredited entities or civil society organizations. This includes the GCF being perceived as lacking added value, being over bureaucratic, not adhering to countries' priorities or managing its resources poorly	Adverse publicity that occurs as a result of fraud, implementation failure or other types of unforeseen shocks related to the operations of the GCF	Adverse publicity that occurs as a result of accredited entities (AEs) and other partners involved in projects/programmes, or from their lack of disclosure of relevant information
Triggers	2.1.1 Ineffective dissemination of results delivered by GCF-supported	2.2.1 Poor oversight of AEs by the GCF;	2.3.1 Failure of due diligence during the accreditation process;

		projects/programmes, including presenting added value with respect to other financial partners; 2.1.2 Overly complex procedures to access GCF funding or failure to communicate in simple language the steps to access such funding; and 2.1.3 Slow decision-making processes at the Board, Secretariat, accredited entity or country levels	2.2.2 Poor oversight by AEs of executing entities, including with respect to adherence to procurement, environmental and social safeguards, gender policies as well as financial management; and 2.2.3 Failure to develop strong relationships with media, civil society organizations (CSOs) and other stakeholders	2.3.2 Lack of internal ‘early warning systems’ based on media monitoring and engagement with other stakeholders; and 2.3.3 Lack of adequate institutional capacity in the Secretariat to monitor the number and complexity of AEs and other partners thus increasing the difficulty of monitoring emerging risks
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	Somewhat disruptive (SD)	High (H)	Somewhat disruptive (SD)
	Priority	High (H)	High(H)	High (H)
Mitigation		Communications strategy (in progress), including the approach to disseminating results, internal processes manuals (in progress), readiness programme , accreditation process, Country Programming outreach, financial management processes of the GCF, media monitoring, participation of observers in Board meetings	Accreditation process, oversight actions taken by the GCF as specified in the master agreement signed with AEs, portfolio management, including review of the progress report for each project, activities of the Redress Mechanism and Integrity Units, and media monitoring	The accreditation process, media monitoring, country programming and portfolio management units’ engagement with AEs, national designated authorities (NDAs), CSOs and other stakeholders
Residual risk	Probability	Somewhat unlikely (SU)	Somewhat likely (SL)	Somewhat unlikely (SU)
	Impact	Somewhat disruptive (SD)	Somewhat disruptive (SD)	Somewhat disruptive (SD)
	Priority	Medium(M)	High(H)	Medium(M)
Key risk indicator		Percentage and number of negative media reports related to this risk subcategory (as opposed to positive and neutral); periodic survey of NDAs, AEs and observers	Percentage and number of negative media reports related to this risk subcategory (as opposed to positive and neutral)	Percentage and number of negative media reports related to this risk subcategory (as opposed to positive and neutral)
Owner		Board, Executive Director, Directors and Chief Financial Officer	Board, Executive Director, Directors and Heads of Accountability Units	Executive Director and Directors

III. Operational risk

Risk code		3.1	3.2
Risk category		Operational	Operational
Subcategory		Accredited entities (AEs) and other parties' risk	Fiduciary
Description		Failure of AEs to comply with the accredited entities master agreement, including in terms of information disclosure. Lack of implementation capacity of the AEs leading to lack of or slow disbursement. Failure of other parties, including executing entities, involved in GCF projects and programmes to comply with their respective agreements with the GCF or with AEs	Failure of the GCF to exercise effectively its fiduciary duty due to: (a) failure of internal controls in administrative and operational procedures; (b) failure to effectively monitor risks and follow appropriate mitigation procedures, including due to the use of improper analytical models; (c) failure to oversee AEs (and their oversight over executing entities); (d) failure to monitor and engage national designated authorities (NDAs); and (e) internal or external fraud
Triggers		3.1.1 Ineffective dissemination of results delivered by GCF-supported projects/programmes, including presenting added value with respect to other financial partners; 3.1.2 Overly complex procedures to access GCF funding or failure to communicate in simple language the steps to access such funding; and 3.1.3 Slow decision-making processes at the Board, Secretariat, accredited entity or country levels	3.2.1 Poor oversight of AEs by the GCF; 3.2.2 Poor oversight by AEs of executing entities, including with respect to adherence to procurement, environmental and social safeguards, gender policies as well as financial management; and 3.2.3 Failure to develop strong relationships with media, civil society organizations (CSOs) and other stakeholders
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	Somewhat disruptive (SD)	Somewhat disruptive SD
	Priority	High (H)	High (H)
Mitigation		Accreditation process; oversight of AEs through periodic monitoring and default clauses in the accredited entities master agreement; portfolio management system	Technical imposed controls in computer systems; periodic internal controls review, including the Committee of Sponsoring Organizations of the Treadway Commission exercise. Risk management framework; portfolio management systems; periodic review, including spot checks, of AE activities; periodic engagement with NDAs; yearly audit of the GCF and of funded activities
Residual risk	Probability	Somewhat unlikely (SL)	Somewhat unlikely (SL)
	Impact	Somewhat disruptive (SD)	Somewhat disruptive (SD)
	Priority	Medium(M)	Medium(M)

Key risk indicator	Number of non-compliance with legal agreements/deviation in monetary terms from expected rate of disbursement	Number of operational incidents and associated loss
Owner	Executive Director and Directors	Board, Executive Director and Directors

Risk code		3.3	3.4
Risk category		Operational	Operational
Subcategory		Staffing	Business disruption
Description		Operational failures, losses and other disruptions arising from the staffing model of the GCF, including staff headcount level and external consultants as well as from problems with recruitment, retention, succession planning, integrity and morale among GCF staff	Disruption of business due to catastrophic events or systems failures (hardware, software, telecommunications and unrest)
Triggers		3.3.1 An inadequate professional profile and insufficient GCF staff; 3.3.2 Excessive workload per staff member and/or lack of expectation regarding career progression; and 3.3.3 Use of consultants who only provide limited knowledge transfer to staff and who may have divided loyalties	3.4.1 Disruption in the provision of public services to GCF Headquarters or strife that prevents temporary or permanent access to GCF Headquarters; 3.4.2 Inaccessibility of GCF information assets, including failure of remote backup server systems and failure to develop and implement a remote working location arrangement; and 3.4.3 Low-quality hardware and software developed or procured by the GCF
Inherent risk	Probability	High (H)	Somewhat unlikely (SU)
	Impact	Somewhat disruptive (SD)	Somewhat disruptive (SD)
	Priority	High (H)	Medium (M)
Mitigation		Human Resources guidelines, including a competitive benefits package, effective performance management system, and continuous learning opportunities; actions to sustain staff morale; Board empowerment of the Secretariat staff; Integrity Unit	Cloud centric way of holding and securing information assets, combined with mobile computing, to allow staff to work remotely. A business continuity management system consistent with ISO 22301:2012 is under development
Residual risk	Probability	Somewhat likely (SL)	Low (L)
	Impact	Somewhat non-disruptive (SND)	Somewhat non-disruptive (SND)
	Priority	Medium(M)	Low(L)
Key risk indicator		Number of long-term vacant positions, turnover rate, periodic benchmarking against similar organizations, number of incidents and associated losses involving rogue employees, consultants/staff ratio, staff survey, outcomes of performance	Number of events and associated impact as well as outcomes of periodic simulated events

	management tools, ratios relating to: number of staff/level of GCF financial assets, number of staff/number of NDAs, AEs and projects	
Triggers	3.3.1 Inadequate professional profile and insufficient GCF staff; 3.3.2 Inadequate workload per staff and/or lack of expectations regarding career progression; and 3.3.3 Use of consultants who only provide limited knowledge transfer to staff and who may have divided loyalties	3.4.1 Disruption in the provision of public services to GCF Headquarters or strife that prevents temporary or permanent access to GCF Headquarters; 3.4.2 Inaccessibility of GCF information assets, including failure of remote backup server systems and failure to develop and implement a remote working location arrangement; and 3.4.3 Low-quality hardware and software developed or procured by the GCF
Owner	Executive Director and Directors	Board, Executive Director and Directors

IV. Legal risk

Risk code	4.1	4.2	4.3
Risk category	Legal	Legal	Legal
Subcategory	Legislative	Contractual	Non-contractual
Description	Failure of the GCF, accredited entities (AEs) or executing entities to implement legislative or regulatory requirements related to the operations or engagements of the GCF in situations where governing laws or rules are ambiguous or untested	Use of defective contracts that expose the GCF to disputes and losses	The GCF, AEs or executing entities fail to keep to the spirit, as well as the letter, of non-contractual law: for example, with respect to infringement of third-party intellectual property rights
Triggers	4.1.1 Lack of privileges and immunities for the GCF and its staff in all countries where the GCF operates; 4.1.2 Improper monitoring of legislative/regulatory changes applicable to the GCF, including due to poor communication with host country authorities; and 4.1.3 Inconsistency between regulations and laws applicable to the GCF and Board decisions, and other internal policies	4.2.1 Improper drafting of legal contracts by GCF legal staff, including due to improper monitoring of applicable laws; 4.2.2 Deviation from master/framework legal agreements; and 4.2.3 Improper drafting of a mediation mechanism clause	4.3.1 Non-compliance by the GCF, AE or executing entities with non-contractual law; 4.3.2 Failure of the GCF to follow generally accepted duty of care with staff, Board members or other stakeholders; and 4.3.3 Failure of an executing entity to follow procurement and environmental and social safeguards' practices consistent with those

				established in the AEs master agreement
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)	Low (L)
	Impact	High (H)	High (H)	Somewhat non-disruptive (SND)
	Priority	High (H)	High (H)	Medium (M)
Mitigation		General Counsel (GC) review of the operating environment of the GCF; accreditation process; portfolio and media monitoring; privileges and immunities (not yet in place)	GC and, when applicable, senior management review of all contracts. Use of external counsel if necessary. Privileges and immunities (not yet in place)	GC oversight of legal documents and internal practices. Adequate staffing of portfolio management teams. Oversight of commitments in the AEs master agreement and in the funded activity agreement
Residual risk		Somewhat unlikely (SU)	Somewhat unlikely (SU)	
		High (H)	High (H)	
		Medium(M)	Medium(M)	Low(L)
Key risk indicator		Number of events (sanctions, legal suits) and associated losses	Number of events (sanctions, legal suits) and associated losses	Number of events (sanctions, legal suits) and associated losses
Owner		Executive Director, Directors and GC	Executive Director, Directors and GC	Board, Executive Director and Directors

V. Compliance

Risk code		5.1	5.2
Risk category		Compliance	Compliance
Subcategory		External	Internal
Description		Failure to comply with the applicable established laws, regulations, policies and standards and codes of conduct set by countries in which the GCF operates and by international law	Failure of staff or Board members to comply with the standards and codes of conduct that are set by the GCF itself through its policies and procedures
Triggers		5.1.1 Lack of privileges and immunities for the GCF and its staff in all countries where the GCF operates; 5.1.2 Ineffective/inefficient staff to monitor compliance; and 5.1.3 Uncertainty regarding laws/regulations/policies from countries where the GCF operates applicable to the GCF	5.2.1 Lack of compilation of policies, procedures, standards of codes; 5.2.2 Lack of enforcement by the Board or Secretariat management; and 5.2.3 Real or perceived ineffectiveness of the Integrity Unit
Inherent risk	Probability	Somewhat likely (SL)	Somewhat unlikely (SU)
	Impact	High (H)	Somewhat disruptive (SD)

		High (H)	Medium (M)
Mitigation		Fiduciary policies, including anti-money laundering/countering the financing of terrorism (under development). Environmental and social safeguards; gender policies; periodic exchanges with home country authorities; privileges and immunities (not yet in place)	Board meetings; internal processes manuals (under development); Integrity Unit
Residual risk	Probability	Somewhat unlikely (SU)	Low (L)
	Impact	High (H)	Somewhat disruptive (SD)
	Priority	Medium (M)	Low(L)
Key risk indicator		Number of events and associated loss (if any)	Number of events and associated loss (if any)
Owner		Executive Director, GC, Chief Financial Officer (CFO) and Directors	Board, Executive Director, GC, CFO, Directors and Integrity Unit

VI. Performance risk

Risk code	6.1	6.2	6.3
Risk category	Performance	Performance	Performance
Subcategory	Temporal	Monetary	Investment criteria
Description	Failure of accredited entities (AEs) or executing entities (EEs) to respect tenors and/or schedules as pertain to financial obligations or the execution of projects/programmes	Failure of AEs and executing entities to honour financial obligations in a timely manner. This includes credit risk; counterparty risk; equity risk; and political risk, including nationalization, expropriation, convertibility and transferability	Failure of AEs or executing entities to adhere to the investment criteria results to which they committed themselves.
Triggers	6.1.1 Temporary inability of AE or EE to make timely payments either due to events related to the project/programme funded by the GCF or to external events; and 6.1.2 Lax project implementation by AE leads to significant delays in project execution	6.2.1 Inability (insolvency) of AE or EE to make payments either due to events related to the project/programme funded by the GCF or to external events; 6.2.2 GCF remedies in cases of default are ineffective (or such perception exists among AEs and EEs), including due to the arbitration clause in GCF legal	6.3.1 Investment criteria are not specific enough to guide AE/EE and the GCF fails to provide further specificity in legal documents associated with each investment; 6.3.2 Reporting requirements from AE/EE are insufficient to assess compliance with investment criteria

			agreements being successfully contested in court; and 6.2.3 Grant is lost in the bankruptcy process and the project is not implemented	(including due to a reporting time lag); and 6.3.3 Poor oversight by the GCF of AE activities or failure to identify potential deviations from the investment criteria during the project/programme approval phase
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	Somewhat disruptive (SD)	High (H)	Somewhat disruptive (SD)
	Priority	High (H)	High (H)	High (H)
Mitigation		Accreditation process; project approval process; AE monitoring process as specified in the accredited entities master agreement; portfolio management oversight and remedial actions for low performing projects; media and other public sources monitoring	Accreditation process; project approval process; AE monitoring process as specified in the accredited entities master agreement; portfolio management system; media and other public sources monitoring	Accreditation process; project approval process; AE monitoring process as specified in the accredited entities master agreement; media and other public sources monitoring; periodic interaction with the national designated authorities (NDAs)
Residual risk	Probability	Somewhat unlikely (SU)	Somewhat unlikely (SU)	Somewhat unlikely (SU)
	Impact	Somewhat disruptive (SD)	High (H)	Somewhat disruptive (SD)
	Priority	Medium(M)	Medium(M)	Medium(M)
Key risk indicator		Number and amount of rescheduled flows as percentage of portfolio	Non-performing loans and write-offs	Number of instances of deviation and amount of resources involved, costs (operational and financial) incurred in correcting such deviations
Owner		Executive Director, Directors, Chief Financial Officer (CFO) and Risk Manager	Executive Director, Directors, CFO and Risk Manager	Executive Director, Directors, CFO and Risk Manager
Risk code		6.4		
Risk category		Performance		
Subcategory		Concentration		
Description		Failure to sufficiently diversify the portfolio of AEs/EEs and/or investments such that a material adverse event related to a restricted number of AEs/EEs and/or projects would have a portfolio-level threatening impact on the GCF		
Triggers		6.4.1 Failure of the project approval process to identify the impact of a specific project on the overall concentration profile; and 6.4.2 Failure to periodically adjust the criteria for project approval in order to keep an adequate balance of the portfolio with respect to the AE/EE or instruments used		
Inherent risk	Probability	Somewhat likely (SL)		

	Impact	Somewhat disruptive (SD)
	Priority	High(H)
Mitigation		Accreditation process; project approval process; portfolio management system; AE monitoring process as specified in the accredited entities master agreement; media and other public sources monitoring; periodic interaction with NDAs
Residual risk	Probability	Somewhat unlikely (SU)
	Impact	Somewhat disruptive (SD)
	Priority	Medium(M)
Key risk indicator		Herfindahl-Hirschman Index for AE and instrument type; list of top 10 AEs by exposure; list of top 10 EEs by exposure
Owner		Executive Director, Directors, CFO and Risk Manager

VII. Funding risk

Risk code		7.1	7.2
Risk category		Funding	Funding
Subcategory		Conversion	Encashment
Description		Failure to convert pledges into contributions in a timely manner	Expected payments in cash or the encashment of promissory notes, do not materialize within the expected time frame
Triggers		7.1.1 Fiscal issues arising in contributor countries; 7.1.2 Delays in legal processes within contributor countries or changes in policy priorities with respect to climate change; and 7.1.3 Loss in confidence of contributor countries in the effectiveness of the GCF	7.2.1 Fiscal issues arising in contributor countries; 7.2.2 Change in policy priorities with respect to climate change; and 7.2.3 Real or perceived inability of the GCF to enforce contribution arrangements
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	High (H)	Somewhat disruptive (SD)
	Priority	High (H)	High (H)
Mitigation		Resource mobilization reports to the Board; periodic engagement with contributors; media and other public sources monitoring	Resource mobilization reports to the Board; periodic engagement with contributors; media and other public sources monitoring
Residual risk	Probability	Somewhat unlikely (SU)	Somewhat unlikely (SU)
	Impact	High (H)	Somewhat disruptive (SD)
	Priority	Medium(M)	Medium(M)
Key risk indicator		Percentage of pledges remaining unsigned (for each year of the replenishment period)	Amount of payments/encashment of notes not received and number of months of delay per contributor

Owner	Executive Director, Chief Financial Officer (CFO) and Risk Manager		Executive Director, CFO and Risk Manager
Risk code	7.3		7.4
Risk category	Funding		Funding
Subcategory	Reflow		Concentration
Description	Expected reflows to the GCF from the project portfolio do not materialize within the expected time frame		Failure to sufficiently diversify the portfolio of contributors such that a materially adverse event related to one or a few key contributors would give rise to a GCF-threatening liquidity or solvency situation
Triggers	7.3.1 Performance risk; and 7.3.2 Failure of GCF grant/loan management (operational risk) system to identify missing flows		7.4.1 Support for climate change financing is limited to a relatively reduced number of countries due to evolving policy priorities; 7.4.2 Failure of replenishment processes due to ineffective outreach to contributors; and 7.4.3 Impasse occurs at the level of the Conference of the Parties to the United Nations Framework Convention on Climate Change
Inherent risk	Probability	Somewhat unlikely (SU)	Low (L)
	Impact	Somewhat disruptive (SD)	High (H)
	Priority	Medium (M)	Medium (M)
Mitigation	Portfolio monitoring		Resource mobilization reports to the Board; periodic engagement with contributors; commitment management system; media and other public sources monitoring
Residual risk	Probability	Low (L)	Low (L)
	Impact	Somewhat disruptive (SD)	High (H)
	Priority	Low(L)	Medium(M)
Key risk indicator	Amount of missing reflows and number of months of delay per accredited entity		Herfindahl-Hirschman Index for contributors and/or list of top five contributors as percentage of replenishment.
Owner	Executive Director, CFO and Risk Manager		Executive Director, CFO and Risk Manager

VIII. Market risk

Risk code	8.1	8.2	8.3
Risk category	Market	Market	Market
Subcategory	Foreign exchange (FX)	Interest rate	Liquidity

Description		Actual contribution amount may fall short of promised amount due to foreign exchange rate fluctuations, causing reputational risk to the GCF	Adverse changes in interest rates, including investment losses in the liquid cash portfolio of the GCF	Timing mismatch between the cash inflows and cash outflows leading to shortages in the ability of the GCF to face its payment obligations (including disbursements to accredited entities (AEs)).
Triggers		8.1.1 FX fluctuations affecting the value of un-encashed signed contributions; 8.1.2 FX fluctuations affecting the value of reflows to the GCF; and 8.1.3 FX fluctuations affecting the value of commitments made to AEs for grants and loans made in currencies different to the holding currency of the GCF	8.2.1 Change in interest rates generate losses in the Trustee investment of the liquid portfolio of the GCF; and 8.2.2 Prepayment risk of fixed rate financial instruments provided by the GCF	8.3.1 Delay in encashment of signed contributions; 8.3.2 Disbursement requests from AE exceeding expected rate; and 8.3.3 Rescheduling of loans extended by the GCF
Inherent risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)	Somewhat likely (SL)
	Impact	Somewhat disruptive (SD)	Somewhat non-disruptive (SND)	Somewhat disruptive (SD)
	Priority	High(H)	Medium (M)	High (H)
Mitigation		Instruments management system (in progress); FX reserve; FX hedging	Periodic review of trustee investment policies; project approval process; asset-liability management system	Cash flow model; financial instruments management system
Residual risk	Probability	Somewhat likely (SL)	Somewhat likely (SL)	Somewhat unlikely (SU)
	Impact	Somewhat non-disruptive (SND)	Somewhat non-disruptive (SND)	Somewhat disruptive (SD)
	Priority	Medium(M)	Medium (M)	Medium(M)
Key risk indicator		Historical losses adjusted to take into account FX positions that cannot be hedged on an economic basis	Value at risk of liquid portfolio and amount of fixed-rate loans extended by the GCF subject to prepayment risk	Duration mismatch and/or percentage of available funds held as a liquidity cushion
Owner		Board, Executive Director, Chief Financial Officer (CFO) and Risk Manager	Executive Director, Director, CFO and Risk Manager	Executive Director, CFO and Risk Manager

Appendix II: Comparison of revised priorities with those approved at the twelfth meeting of the Board

I. Strategic risk

Risk code	1.1	1.2
Risk category	Strategic	Strategic
Subcategory	Climate impact and results	Concentration
Initial priority	High (H)	Medium(M)
Revised priority	Medium(M)	Medium(M)
Rational of the change	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk	-

Risk code	1.3	1.4	1.5
Risk category	Strategic	Strategic	Strategic
Subcategory	Portfolio management	Accountability	Country ownership
Initial priority	Medium(M)	Medium(M)	Medium(M)
Revised priority	Medium (M)	Medium (M)	Medium (M)
Rational of the change	-	-	-

II. Reputational risk

Risk code	2.1	2.2	2.3
Risk category	Reputational	Reputational	Reputational
Subcategory	Business practices and results	Unexpected shocks	Accredited entities and other partners' activities
Initial priority	Medium(M)	High (H)	Medium(M)
Revised priority	Medium(M)	High(H)	Medium(M)
Rational of the change	-	-	-

III. Operational risk

Risk code	3.1	3.2
Risk category	Operational	Operational
Subcategory	Accredited entities (AEs) and other parties' risk	Fiduciary
Initial priority	High(H)	High(H)
Revised priority	Medium(M)	Medium(M)
Rational of the change	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk

Risk code	3.3	3.4
Risk category	Operational	Operational
Subcategory	Staffing	Business disruption
Initial priority	High(H)	Medium(M)
Revised priority	Medium (M)	Low(L)
Rational of the change	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk	Through extensive mitigation measures, probability can be lowered to low level.

IV. Legal risk

Risk code	4.1	4.2	4.3
Risk category	Legal	Legal	Legal
Subcategory	Legislative	Contractual	Non-contractual
Initial priority	High (H)	Medium(M)	Medium(M)
Revised priority	Medium(M)	Medium(M)	Low(L)
Rational of the change	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk	-	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk one level lower than the medium level of inherent risk

V. Compliance

Risk code	5.1	5.2
Risk category	Compliance	Compliance
Subcategory	External	Internal
Initial priority	High (H)	Medium(M)
Revised priority	Medium (M)	Low(L)
Rational of the change	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk one level lower than the medium level of inherent risk

VI. Performance risk

Risk code	6.1	6.2	6.3
Risk category	Performance	Performance	Performance
Subcategory	Temporal	Monetary	Investment criteria
Initial priority	Low(L)	Medium(M)	Low(L)
Revised priority	Medium(M)	Medium(M)	Medium(M)
Rational of the change	Considering the lack of track record of accredited entities (AEs), especially for direct access, this type of risk may not be well-controlled at least in the short run	-	Considering the lack of track record of AEs, especially for direct access, this type of risk may not be well-controlled at least in the short run

Risk code	6.4
Risk category	Performance
Subcategory	Concentration
Initial priority	Medium(M)
Revised priority	Medium(M)
Rational of the change	-

VII. Funding risk

Risk code	7.1	7.2
Risk category	Funding	Funding
Subcategory	Conversion	Encashment
Initial priority	High (H)	Medium(M)
Revised priority	Medium(M)	Medium(M)
Rational of the change	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk	-

Risk code	7.3	7.4
Risk category	Funding	Funding
Subcategory	Reflow	Concentration
Initial priority	Medium(M)	Medium(M)
Revised priority	Low(L)	Medium(M)
Rational of the change	Because the GCF is just about to start to fund projects/programmes, reflow risk is not its main concern for the next three to five years	-

VIII. Market risk

Risk code	8.1	8.2	8.3
Risk category	Market	Market	Market
Subcategory	Foreign exchange	Interest rate	Liquidity
Initial priority	Medium(M)	Medium(M)	High(H)
Revised priority	Medium(M)	Medium(M)	Medium(M)
Rational of the change	-	-	Through extensive mitigation measures, the GCF can mitigate this type of subcategory residual risk at least one level lower than the high level of inherent risk