Climate Investment Funds

CTF/TFC.21/5
May 16, 2019

Meeting of the CTF Trust Fund Committee
Washington D.C.
Tuesday, June 4, 2019

Agenda Item 6

CTF Risk Report

PROPOSED DECISION

The CTF Trust Fund Committee reviewed the document, CTF/TFC.22/5, *CTF Risk Report*, and welcomes the progress that has been made in advancing the work of CTF.

The Trust Fund Committee requests the CIF Administrative Unit to continue to identify, assess, monitor and report the key risk exposures to the program, and to endeavor to enhance the CIF's Enterprise Risk Management (ERM) Framework, by assessing, monitoring, and reporting interest rate risk exposures for CTF.

1 Introduction

1. This report assesses the more significant risk exposures facing the Clean Technology Fund (CTF). Data as of December 31, 2018 was used to flag projects for implementation risk and compare them with projects flagged in the previous CTF Risk Report (as of June 30, 2018). Certain projects use more updated information, as indicated in the report. Information as of March 31, 2019, was used to assess the other risks and compare them with risks highlighted in the previous CTF Risk Report (as of September 30, 2018).

2. The following matrix summarizes CTF's key risk exposures.

Summary Risk Matrix as of March 31, 2019 - CTF			
Risk	**Likelihood**	**Severity**	**Risk Score**
Implementation Risk	Very Likely	Moderate	High
Currency Risk	Very Likely	Moderate	High
Credit Risk	Likely	Moderate	High
Resource Availability Risk	Possible	Moderate	Medium

3. Implementation risk for CTF remains **High** as nine out of 98 projects representing USD 504 million (12 percent) of approved funding have been flagged for this risk. The program's implementation risk score has been High for the last four semi-annual reporting cycles.

4. Although a recent encashment of GBP 172 million caused the unrealized decline in the value of CTF's uncashed promissory notes to decrease to USD 61 million from USD 118 million, the remaining currency risk exposure for CTF continues to be **High**. The program's currency risk score has been High for the last four semi-annual reporting cycles.

5. Credit risk for CTF is **High** as losses associated with the loan portfolio are expected to approach 6 percent. As of March 31, 2019, four loans were reported to be experiencing payment defaults (three representing EUR 22 million and one representing USD 12 million). The program's credit risk score has been High for the last four semi-annual reporting cycles.

6. Although resource Availability risk has been Low for the last three reporting cycles, it is now **Medium** as a shortfall in available resources of USD 328 million has been incurred.

7. The CTF Trust Fund Committee approved the CTF Risk Appetite Statement in March 2019.

2 Assessment of key risk exposures[1]

8. For CTF, the definition of risk is any threat to the achievement of CTF's objectives. This definition, along with the definition of CTF's objectives, establishes the context for appraising CTF's risk exposures.

2.1 Implementation risk

9. Implementation risk is the risk that a project, once effective, is not implemented in a timely manner. The CIF Administrative Unit flags a project for implementation risk if the project meets at least one of the following two criteria.
   - The project has been effective for 36 months but has disbursed less than 20 percent of approved funds.
   - The project is within 15 months of the date by which all CTF funds are to be disbursed but has disbursed less than 50 percent of approved funds.

10. The MDBs provide this information semi-annually, and the most recent information available is as of December 31, 2018.

11. CTF's risk score for implementation risk remains **High** as nine public sector projects representing USD 504 million (or 12 percent) of MDB-approved funding have been flagged for this risk (seven projects under the first criterion and two under the second). No private sector projects were flagged.

12. Table 1 illustrates the seven projects representing USD 290 million of MDB-approved funding which have been flagged under the first criterion (vs. seven projects totaling USD 285 million as of June 30, 2018). Six projects flagged as of June remain on the December list and are highlighted in orange. The other project (Market Transformation through Introduction of Energy Efficient Electric Vehicles Project – Philippines (ADB)) is no longer flagged under this criterion as disbursements have increased to above 20 percent; however, it remains flagged under the second criterion.

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[1] Severity, in the risk scoring process, is determined (where possible) based on the estimated impact of a risk as a percentage of the program's total pledges and contributions.

- Severe represents an estimated potential impact > 5% of the program's total pledges and contributions.
- Moderate represents an estimated potential impact 1% - 5% of total pledges and contributions.
- Minimal represents an estimated potential impact < 1% of total pledges and contributions.

However, because the impact on funds exposed to implementation risk may simply be delays in the implementation of projects which are ultimately successful (vs. a complete loss of funding for projects as is the case with currency risk), the following ranges are used to classify implementation risk severity.

- Severe represents an estimated potential impact > 10% of the program's total pledges and contributions.
- Moderate represents an estimated potential impact 5% - 10% of total pledges and contributions.
- Minimal represents an estimated potential impact < 5% of total pledges and contributions.

Table 1: CTF public sector projects effective for 36 months with less than 20 percent of approved funds disbursed

COUNTRY	PROJECT TITLE	MDB	CTF Funding (USD million)	Cumulative Disb. FY19-S1	Disbursement Ratio	Effectiveness Date	Months Since Effectiveness Date	MDB Co-Financing (USD millions)
Ukraine	Second Urban Infrastructure Project (UIP-2)	IBRD	50.0	9.1	18%	11/21/2014	50	300
Ukraine	District Heating Energy Efficiency Project	IBRD	50.0	5.1	10%	11/24/2014	50	332
Philippines	Cebu Bus Rapid Transit Project	IBRD	25.0	-	0%	12/3/2014	50	116
Vietnam	Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project	ADB	49.0	0.3	1%	4/1/2015	46	10
Ukraine	Second Power Transmission Project	IBRD	48.4	0.2	0%	6/9/2015	43	333
Vietnam	Ha Noi Sustainable Urban Transport Program - Project 2: Strengthening Sustainable Urban Transport for Hanoi Metro	ADB	49.0	0.5	1%	7/9/2015	42	4
DPSP-Regio	Utility Scale Renewable Energy: Geothermal - Sustainable Energy Facility for the Eastern Caribbean	IDB	19.1	2.0	10%	10/20/2015	39	20

13. **Second Urban Infrastructure Project – Ukraine (World Bank)**: Disbursements increased by USD 3.9 million during the period.

    a. *Reason(s) for delay:* The political situation in Ukraine caused delays at the initial stage of the project. Additionally, there has been significant turnover with project coordinators (i.e., the project has had over five project coordinators). Implementation progress is rated Moderately Satisfactory

    b. *Measures underway to accelerate implementation:* The World Bank team is providing continuous monitoring and implementation support with missions every three months. This includes monitoring the Central Project Management Unit (CPMU) and Regional Project Management Units' (RPMU) project delivery, as well as supporting new utilities in bidding document preparation and procurement. Task Team support for contract signing, effectiveness and implementation, and disbursement under executed contracts is ongoing.

    c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* Two years remain until project closure.

14. **District Heating Energy Efficiency Project – Ukraine (World Bank)**: Disbursements increased by USD 2.2 million during the period.

    a. *Reason(s) for delay:* During the first years of implementation, most district heating companies have made insufficient progress in preparing their investment plans and feasibility studies and in tendering. Additionally, the mandatory transition, in January 2019, to e-disbursement for World Banks projects created significant administrative and legal issues

    b. *Measures underway to accelerate implementation:* Ukrainian authorities and the World Bank agreed to restructure the project. Restructurings in March 2016, May 2017, June 2018, and February 2019 resulted in a reduction of the number of participating utility companies (from 10 to five). All remaining participating utilities, with the exception of

automated distribution investments in Kharkiv, which may require limited closing date extension, appear on course to complete project activities by October 30, 2020. As the issues with e-disbursement are addressed disbursements should accelerate.

c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* Disbursement of CTF funds are expected to reach 20 percent by December 2019.

15. **Cebu Bus Rapid Transit Project – Philippines (World Bank)**: All CTF funds remain undisbursed.

a. *Reason(s) for delay:* The project is in its fifth year of implementation. It was put on hold by the implementing agency to reevaluate the project in light of fact that the implementing agency was reconsidering their urban transportation development strategy in January 2018. In July 2018, the government confirmed its commitment to implement the project as part of the integrated inter-modal transport system planned for the metropolitan area.

b. *Measures underway to accelerate implementation:* The World Bank team will urge the client to submit fund withdrawal requests for already signed contracts for technical support consultants and social management consultants.

A catch-up plan to accelerate project implementation is prepared, which will require the following critical actions:

- Appointment of a project manager based in Cebu
- Remobilization of detailed engineering design (DED) consultant
- Approval of the project phasing and corridor alignment
- Coordination with other line agencies such as Department of Public Works and Highways and National Housing Authority in land acquisition and resettlement
- Parallel implementation of activities leading to infrastructure delivery, mobilization of Bus Rapid Transit (BRT) system manager and bus service contracts, and engagement with industry stakeholders
- Mobilization of transaction advisor for BRT system manager and bus service contracts

c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* The bulk of the CTF money is allotted to be used for construction of BRT terminals and traffic management. At this stage, the project still needs to re-mobilize the DED consultant, finalize corridor alignment, project phasing, and then the DED for the first phase. Only after these steps are completed can procurement for civil works begin, including for terminal and traffic management. The World Bank team expects CTF disbursements to reach 20 percent by September 2020.

16. **Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project – Vietnam (ADB):** For the past two years approximately USD 0.08 million of CTF funds have been disbursed annually. As of the end of April 2019, almost USD 0.4 million have disbursed.

   a. *Reason(s) for delay:* Implementation of the SUT HCMC project has been delayed for more than four years due to its dependence on the parent HCMC MRT Line 2 Project, which was delayed by more than five years due to a protracted fundamental design process and the government's project adjustment approval procedure.[2] The government has therefore upheld processing a loan extension for the project.

      As with the Ha Noi project (see Paragraph 18), the Implementing Agency's (IA) poor capacity and ongoing institutional restructuring process are causing further project delay.

   b. *Measures underway to accelerate implementation:* To expedite the project, ADB is doing the following:
      - Continues to follow up and coordinate closely with the Executing Agency (EA)/IA, and the government, if necessary, on the status of the project's adjustment and loan extension process through missions and tripartite meetings
      - Conducts due diligence of the new IA's procurement and financial capacity and proposes actions for capacity building if needed
      - Coordinates with the IA to update the project schedule, and instructs the IA to seek government endorsement of advance consulting service recruitment in parallel with project adjustments

   c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* The parent project is expected to be completed by December 2026, thus requiring SUT project's original completion date of June 30, 2020 to be extended to the end of 2026 or mid-2027.

      Based on the most updated implementation program of the parent project and interfaces, ADB anticipate that CTF loan disbursement will start by 2022, and that 20 percent of the CTF loan amount will be disbursed by 2024.

[2] The parent HCMC Metro Line 2 project's adjustment process started in December 2016, and the approval was delayed from March 2018 to July 2019 due to the extended length of time the government required to interpret the country's new investment law. Under this law, the project was recategorized and is subject to the National Assembly's approval. Recently, the project was endorsed by the government that the EA expects to appraise and approve such adjustments by July 2019.

17. **Second Power Transmission Project – Ukraine (World Bank):** The amount of disbursed CTF funds remained unchanged at USD 0.2 million during the period.

   a. *Reason(s) for delay:* The CTF-financed component of the project, Electricity Market Enhancement, has progressed slowly due to the complex nature of the procurement packages and the country's accelerated effort to synchronize its power system with the European grid, which was launched in July 2017. It took a long time to define the technical requirements for the bidding documents for the smart grid packages based on consultations with the transmission system operators. Those packages are new to the client. Also, it took time to ensure all the technical requirements are aligned with European operational standards, which is critical to complete synchronization with European systems.

      Ownership of the national transmission company, Ukrenergo, which is implementing this project, was transferred to Ministry of Finance from Ministry of Energy on February 14, 2019. Since then, they have been finalizing the transfer and modifying the 2019 state budget plan. During this period the government has stopped all the payments to contractors. The process is expected to be completed in May 2019, and then payments will resume. Disbursements during FY2019 will be minimal due to this issue.

   b. *Measures underway to accelerate implementation:* Experts have been mobilized to support the client in resolving complicated outstanding technical issues. They helped the client facilitate the bidding document preparations, which led to their timely preparation, especially for the Supervisory Control and Data Acquisition (SCADA[3]) package. In parallel, the World Bank team has provided quick responses to emerging issues and carried out close monitoring on the project implementation with frequent video conferences with the client and the consultants.

   c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* The disbursement of the CTF loan was expected to accelerate in early 2019 but did not.

      The World Bank team has worked with the client to accelerate disbursement of 20 percent of CTF financing for the SCADA and Wide Area Monitoring System (SCADA/WAMS) package, which will follow the contracts signing in October 2019.

18. **Ha Noi Sustainable Urban Transport Program - Project 2: Strengthening Sustainable Urban Transport for Hanoi Metro Line 3 (ADB):** For the past two years approximately USD 0.08 million of CTF funds have been disbursed annually. As of end of April 2019, approximately USD 0.5 million of CTF funds have been disbursed.

   a. *Reason(s) for delay:* Implementation was delayed for almost four years due to its heavy dependence on the parent project Ha Noi Metro System Line 3 Project (Project 1), which was delayed for five years due to a prolonged procurement process, land acquisition

[3] SCADA consists of hardware and software to monitor and control equipment in the power system scattered across the country.

and resettlement, and a contractor's performance. A change in IA and the IA's poor capacity also contributed to project delays.

b. *Measures underway to accelerate implementation:* To expedite Project 2, ADB is doing the following:
   - Financed two staff consultants to prepare terms of reference for consulting services, and conducted due diligence on completed land acquisition for the proposed new component to finance equipment for a bus depot that provides operations and maintenance service to the project's future feeder bus fleet[4]
   - Provided timely comments on submissions to achieve awarding of the first consulting service contract (CS4 Design) in September 2018. Advance payment was made in December 2018.
   - Follows up closely with EA/IA on the status of project adjustments and loan extension
   - Sent an informal reminder of the loan extension to the EA/IA, and a formal reminder at meetings (e.g., Tripartite Portfolio Review Meetings)
   - Will coordinate with ADB Legal Department to prepare and send the government draft amendments to the loan agreement on proposed project scope changes to expedite the loan extension
   - Will continue to coordinate closely with the IA to advance the recruitment of the remaining consulting services from Q2 2019. Progress is expected to improve from Q4 2019.

c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* The government was expected to submit a request in May 2019 to extend the project until mid-2023 to align with the schedule of the parent project. Based on the updated interface schedule with the parent project, and this project itself, ADB anticipates that by 2022, 20 percent of the CTF loan amount will be disbursed.

19. Utility Scale Renewable Energy: Geothermal - Sustainable Energy Facility for the Eastern Caribbean – DPSP Regional (IDB):

a. *Reason(s) for Delay:* Delays in project execution were due to extended negotiation between the geothermal project company (SVGCL) and the local utility (VINLEC) on the Power Purchase Agreement (PPA). and the need to renegotiate the Joint Venture between the Government of St. Vincent and the Grenadines and one of the two private sector partners involved in the project. Both negotiations have been finalized and no foreseeable issues remain that could generate additional delays. Drilling started in May 2019 with an official launch ceremony held on May 6, 2019. As of that date, 119 meters (out of the planned 2,500) have been drilled.

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[4] The proposed bus depot shall be built under the Government budget by the Hanoi Urban Transport Management and Operation Center, who will operate the feeder buses in the future. Buses will be procured by CTF and will be stored and maintained at the depot.

b. *Measures underway to accelerate implementation:* The Executing Agency supported the PPA negotiations to expedite the resolution of outstanding issues and disbursement of the CTF funds. Shifts have been structured so that drilling operations take place continuously (24 hours a day, seven days a week).

c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* With the drilling contract under execution, the remaining resources will be disbursed over the next eight to ten months. The Executing Agency monitors progress daily based on daily reports from the Drilling Supervisor on site.

20. Table 2 illustrates that the same two projects (representing USD 213 million of approved funding) that were flagged under the second implementation risk criterion as of June 2018 (in the January 2019 Risk Report) are still flagged now.

Table 2: CTF public sector projects within 15 months of closing and less than 50 percent of approved funds disbursed

COUNTRY	PROJECT TITLE	MDB	MDB approved funding (USD million)	Cumulative Disb. FY19-S1	Disbursement Ratio	Anticipated Date of Last Disbursement	Months Before Expected Date of Final Disbursement	MDB Co-Financing (USD millions)
Philippines	Market Transformation through Introduction of Energy Efficient Electric Vehicles Project	ADB	13.4	4.1	31%	9/30/2019	9	300
Mexico	Urban Transport Transformation Project	IBRD	200.0	62.0	31%	8/1/2019	7	150

21. **Market Transformation through Introduction of Energy Efficient Electric Vehicles Project – Philippines (ADB):** Disbursements increased by USD 3.9 million during the period.

    a. *Reason(s) for delay:* Higher than expected e-trike costs have affected demand under the original project design, which resulted in disbursement delays. The substantial partial loan cancellation led to additional deviation from disbursement projections.

    b. *Measures underway to accelerate implementation:* Subsequent revisions to project implementation arrangements were made to address the lower demand. To address the challenges in e-trike distribution under the original project design, the Executing Agency proposed revised distribution channels for the 3,000 contracted e-trike units, including: sale, auction, donation, and demonstration, which ADB approved in October 2017. ADB and the government have been working together to ensure sustainable deployment under the new arrangements for the 3,000 contracted units. As of April 25, 2019, 1,346 e-trike units have been deployed to various local government units and national government agencies under the donation and demonstration schemes. The remaining 1,654 units are either being scheduled for delivery to the eligible recipients or with deployment plans being finalized.

    c. *Estimated timeframe within which the project will have disbursed ≥ 50 percent of CTF funds*: ADB approved in June 2018 the government's loan and grant extension requests for 11 months until May 2019 to allow for full deployment. Full disbursement of all commitments under the CTF loan is expected by the third quarter of 2019, the expected timing of the financial close of the loan. Any remaining undisbursed CTF loan amounts will be cancelled and returned to CTF. Fund utilization under the grant will remain minimal as procurement of solar charging stations, which comprised 80 percent of the grant allocation, will no longer be pursued in light of the tight timeline remaining in the loan and grant availability period. Undisbursed grant amounts will be returned to CTF on financial closure of the grant.

22. **Urban Transport Transformation Project – Mexico (World Bank):** The amount of disbursed CTF funds remained unchanged at USD 62 million during the period.

    a. *Reason(s) for delay:* The project's implementation was significantly impacted by the introduction of the Law on Financial Discipline, which was enacted in April 2016. Under this law, sub-national governments are required to conduct a competitive bidding process for the contracting of public debt, even if these governments intend to use concessional funds from MDBs. The requirements complicated the process to secure any use of debt for the BRT Line 5 (USD 110 million) for Mexico City, despite project eligibility and World Bank processes being applied to the procurement of the civil works contracts. The sub-project in the State of Morelos (USD 28 million UTTP loan for Morebus BRT infrastructure) was canceled by the Government of Morelos after the 7.1-magnitude earthquake that affected 14 of the 33 municipalities in that state.

    b. *Measures underway to accelerate implementation:* The project closed on April 30, 2019. No further disbursements are expected.

c. *Estimated timeframe within which the project will have disbursed ≥ 50 percent of CTF funds:* Not applicable.

2.1.1 MDB cancellation guidelines and criteria

23. During the December 2017 committee meetings, members expressed interest in receiving information pertaining to MDBs' potential decisions to cancel projects. Some MDBs have provided links to their guidelines.

- ADB – Project Administration Instructions: Suspension and Cancellation of Loans
- ADB – Externally Financed Grant Regulations Applicable to Grants Financed from a Trust Fund or Other External Sources and Administered by ADB
- AfDB – Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees
- IBRD - Trust Fund Handbook (see Section 5.9)

2.2 Currency risk via promissory notes

24. Currency risk via promissory notes is the risk that fluctuations in currency exchange rates will cause the value of the foreign currency in which a promissory note is denominated to decline.

25. There have been further encashments of promissory notes since September 30, 2018, in the amount of GBP 172 million causing the realized losses associated with these promissory notes to increase to USD 101 million from USD 47 million. GBP 345 million of promissory notes remained outstanding as of March 31, 2019 with an associated USD 61 million in unrealized losses so CTF's exposure to this currency risk remains **High**.

26. Table 3 illustrates that it is very likely CTF will realize a moderate (relative to the size of the program) decline in available resources due to the currency risk exposure via GBP-denominated promissory notes. The unrealized decline in the value of the outstanding promissory notes decreased to USD 61 million from USD 118 million as reported at September 30, 2018 primarily due to the recent encashment.

Table 3: CTF currency risk exposure summary

Currency Risk Exposure (Millions) as of March 31, 2019							
Program/ Subprogram	Original Amount Pledged/ Received (GBP)	Pledged Amount Outstanding/ Unencashed (GBP)	Realized Currency Gain/ (Loss) (USD)	Unrealized Currency Gain/ (Loss) (USD)	Risk Likelihood	Risk Severity	Risk Score
CTF	£1,130.0	£344.7	**(101.4)**	**(61.0)**	Very Likely	Moderate	**High**

2.3 Credit risk

27. Credit risk is the risk that a CTF financing recipient will become unwilling or unable to satisfy the terms of an obligation to an MDB in its capacity as an originator and servicer of CTF's outgoing financing.

28. Exposure to this risk could lead to insufficient available resources for the Trustee to repay loan contributors. Additionally, the viability and success of a project can be affected by a recipient's financial solvency.

29. CTF's primary source of credit risk exposure is incurred through the funds it commits for public sector (75 percent of the portfolio) and private sector (25 percent of the portfolio) loans. Credit risk exposure incurred through other instruments (e.g., guarantees) is minimal.

2.3.1 Update on loans currently experiencing payment defaults

30. As of March 31, 2019, three private sector CTF loans (EUR 2 million, EUR 5.6 million, and USD 12 million) were experiencing payment defaults (see Table 4). Additionally, a defaulted EUR 15.5 million loan was sold to investors during the first half of FY 2019.

Table 4: CTF loans experiencing payment defaults (as of March 31, 2019)

<table>
<tr><th rowspan="2">Loan Amount</th><th rowspan="2">Currency</th><th colspan="2">Missed Interest Payments</th><th colspan="2">Missed Principal Repayments</th><th rowspan="2">Default Interest</th><th rowspan="2">Total</th></tr>
<tr><th>Date</th><th>Amount</th><th>Date</th><th>Amount</th></tr>
<tr><td rowspan="2">2,000,000</td><td rowspan="2">EUR</td><td></td><td></td><td>5/30/2018</td><td>78,077</td><td></td><td rowspan="2">156,154</td></tr>
<tr><td></td><td></td><td>11/30/2018</td><td>78,077</td><td></td></tr>
<tr><td rowspan="3">5,600,000</td><td rowspan="3">EUR</td><td></td><td></td><td>8/15/2018</td><td>107,692</td><td></td><td rowspan="3">323,076</td></tr>
<tr><td></td><td></td><td>11/10/2018</td><td>107,692</td><td></td></tr>
<tr><td></td><td></td><td>2/13/2019</td><td>107,692</td><td></td></tr>
<tr><td rowspan="4">12,065,953</td><td rowspan="4">USD</td><td>42,948</td><td>245,688</td><td>8/1/2017</td><td>96,528</td><td></td><td rowspan="4">1,474,364</td></tr>
<tr><td>43,132</td><td>245,029</td><td>2/1/2018</td><td>90,495</td><td>30,961</td></tr>
<tr><td>43,313</td><td>241,818</td><td>8/1/2018</td><td>132,725</td><td>21,733</td></tr>
<tr><td>43,497</td><td>244,325</td><td>2/1/2019</td><td>90,495</td><td>34,567</td></tr>
</table>

31. **Rokytne Biogas Project (EUR 2.0 million):** In January 2018, EBRD reported that a borrower missed a scheduled repayment of EUR 560,000 due November 30, 2017 (EUR 394,000 in principal and EUR 166,000 in interest) associated with the Rokytne Biogas project. A partial payment was made on December 1, 2017, and a subsequent partial payment was made on February 13, 2018. All remaining outstanding amounts were fully remitted by February 20, 2018.

32. Rokytne has since defaulted on two principal payments (total CTF contribution EUR 156,153) due May 30 and November 30, 2018. It will not service principal due May 2019 but has continued to make payments of interest and accrued default interest. Cash flow problems have arisen because it has not been possible to operate the plant at the expected level due to technical and operational problems and the sponsor has not provided the support necessary.

33. EBRD had indicated a willingness to negotiate a restructuring based on the cash flow capacity of the plant after capex improvements have been made to address technical problems and subject to satisfactory 1) funding plan for required capex, 2) a technical support agreement with a third party, 3) related party audit, and 4) resolution of certain issues identified during the security audit. However, as EBRD has yet to receive acceptable projections and evidence of the funding plan, the loans were accelerated on April 11, 2019 and demands have been made from the guarantors. EBRD remains willing to consider a consensual restructuring but has accelerated in case progress is not made and enforcement action is eventually required.

34. **Ivankiv Project (EUR 5.6 million):** In June 2018, to allow the second line to be recommissioned, EBRD had extended the grace period for the CTF loan associated with the Ivankiv project to August 2018 and the maturity to August 2028. It was assumed that commercial operation would be achieved February 2019. The average CTF loan life was increased by two years, while the average life of the associated EBRD loan was increased to 2.75 years.

35. Due to delays in recommissioning the second line by the target date, Ivankiv has not generated sufficient cash to pay the first three rescheduled principal instalments although partial Interest payments continue to be made. The recommissioning finally took place on March 15, 2019, and it is reported that both lines are now operating. EBRD is currently reviewing revised cash flows to determine whether it is able to support a second rescheduling of principal based on the actual cash capacity of the business.

36. **USD 12 million loan:** Payments on this remain in default although implementation of the corresponding project continues to progress.

2.3.2 Restructuring

37. In April 2019, the CIF Administrative Unit was informed that a CTF private sector project is being restructured so that CTF may be able to receive limited partial repayments on the loan. The exact amount is not yet known, but the project remains operational.

2.3.3 Eskom/South Africa update

38. CTF has committed USD 430 million for seven projects (four of which directly involve Eskom) in South Africa. Eskom is the sole off-taker in South Africa, generates approximately 95 percent of the electricity used in South Africa and approximately 45 percent of the electricity used in Africa. It generates, transmits, and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors. Eskom's viability is crucial to South Africa's economy and CTF's projects there.

39. Eskom continues to experience severe financial distress, which has led to significant credit rating downgrades of the entity that now challenge Eskom's ability to raise debt in the capital markets at a reasonable cost in the absence of a guarantee from the government of South Africa (see Table 5).

Table 5: Recent actions on Eskom's credit rating

Moody's Rating	Date of Moody's Rating Revision	S&P Ratings	Date of S&P Rating Revision	Fitch Ratings	Date of Fitch Rating Revision
B2(N)	7/27/2018	CCC+	3/1/2019	BB-(N)	10/25/2018
B2	3/28/2018	CCC+(N)	2/27/2018	BB-(RWN)	1/31/2018
B1	1/26/2018	B-(N)	11/28/2017	BB+	4/11/2017
Ba3	11/29/2017	B+(N)	4/6/2017	BBB-(N)	12/6/2016
		BB-	12/8/2016		
		BB(N)	11/25/2016		

40. In the past months, Eskom has engaged in load-shedding, and it is speculated that this will continue. This has been damaging to the economy and has led over 400 individual businesses to file a class action lawsuit against Eskom.

41. Issues contributing to the situation include:
    - Constrained ability to raise tariffs (requested a 20 percent increase in 2018 but only granted 5.2 percent, requested 15 percent in 2019 but only granted 5 percent)
    - The need to shut down generation for overdue maintenance
    - Three municipalities are not passing consumer payments to Eskom
    - The new facilities in Medupi and Kusile are over-budget and behind schedule

42. Initiatives to address the situation had included:

    - Eskom is pursuing legal action against its regulator due to the inadequate tariff increases which the regulator has been granting Eskom.
    - New Development Bank plans to lend as much as USD 780 million to Eskom.
    - The South African government is considering a ZAR 69 billion (USD 4.8 billion) bailout over three years.
    - The South African government is considering unbundling Eskom into three entities.
    - Medupi and Kusile were expected to be completed next year.

43. However, financiers have begun to express reluctance in lending funds to Eskom given the dire financial situation. Additionally, the South African government has since clarified that the ZAR 69 billion bailout over three years would not materialize as additional funding, but that it was to be realized from the 5 percent tariff increase which was granted (vs. the 15 percent requested) this year.

44. Additional considerations are that 1) all CTF loans to Eskom are guaranteed by the South African government, and 2) more than half of Eskom's debt is guaranteed by the South African government.

45. It seems unlikely that the government would permit Eskom to default on any of its debt given the consequences this would have on the country. Therefore, the fundamental risk would be a scenario in which the government was unable to raise debt in the capital markets on Eskom's behalf. Only one rating agency (Moody's) still rates the South African government as being investment grade. If Moody's downgrades the South African government by one or more notches, it will become challenging for the government to raise funds in the capital markets.

2.3.4 Public sector exposure

46. All CTF public sector loans are extended directly to externally rated sovereigns or to entities guaranteed by externally rated sovereigns. Presently CTF is exposed to 11 sovereigns with ratings ranging from Triple-C (Ukraine) to Single-A (Mexico).

47. Table 6 summarizes the public sector rating changes that occurred between September 30, 2018 and March 31, 2019.

Table 6: Credit rating change summary for CTF public sector loan recipients

	3/31/2019				9/30/2018			
Country	**S&P**	**Moody's**	**Fitch**	**Lowest Rating**	**S&P**	**Moody's**	**Fitch**	**Lowest Rating**
Colombia	BBB-	Baa2(N)	BBB	BBB-	BBB-	Baa2(N)	BBB	BBB-
Egypt	B	B3(P)	B+	B-	B(P)	B3(P)	B(P)	B-
India	BBB-	Baa2	BBB-	BBB-	BBB-	Baa2	BBB-	BBB-
Indonesia	BBB-	Baa2	BBB	BBB-	BBB-	Baa2	BBB	BBB-
Mexico	BBB+(N)	A3	BBB+(N)	BBB+	BBB+	A3	BBB+	BBB+
Morocco	BBB-(N)	Ba1	BBB-	BB+	BBB-	Ba1(P)	BBB-	BB+
Philippines	BBB(P)	Baa2	BBB	BBB	BBB(P)	Baa2	BBB	BBB
South Africa	BB	Baa3	BB+	BB	BB	Baa3	BB+	BB
Turkey	B+	Ba3(N)	BB(N)	B+	B+	Ba3(N)	BB(N)	B+
Ukraine	B-	Caa1	B-	CCC+	B-	Caa2(P)	B-	CCC
Vietnam	BB-	Ba3	BB	BB-	BB-	Ba3	BB	BB-

48. The CIF Administrative Unit uses the five-year probability of default (PD) and loss given default (LGD) associated with each rating to estimate the expected loss rate[5] associated with the public-sector loan portfolio. The CIF Administrative Unit refined its rating assessment methodology to be based on the more recent *Moody's Annual Default Study: Defaults will rise modestly in 2019 amid higher volatility*. This refinement resulted in declines in PDs and LGDs associated with all public sector recipients' credit ratings. Additionally, the increases in exposure to Indonesia and India, as well as Moody's upgrading of Ukraine, contributed to the decrease in expected losses from 4.5 percent to 4.1 percent (see Table 7).

Table 7: CTF public sector loan commitments credit risk exposures by country (as of March 31, 2019)

Beneficiary Country	Loan Amount	Least Rating	Credit Rating S&P	Credit Rating Moody's	Credit Rating Fitch	PD	LGD	Expected Portfolio Loss Rate
Colombia	89,215,000	BBB-	BBB-	Baa2(N)	BBB	2.2%	56.4%	0.04%
Egypt, Arab Republic of	149,750,000	B-	B	B3(P)	B+	26.3%	61.5%	0.79%
India	755,000,000	BBB-	BBB-	Baa2	BBB-	2.2%	56.4%	0.30%
Indonesia	165,000,000	BBB-	BBB-	Baa2	BBB	2.2%	56.4%	0.07%
Mexico	369,514,000	BBB+	BBB+(N)	A3	BBB+(N)	1.1%	56.4%	0.07%
Morocco	633,950,000	BB+	BBB-(N)	Ba1	BBB-	5.1%	58.2%	0.62%
Philippines	57,201,690	BBB	BBB(P)	Baa2	BBB	1.4%	56.4%	0.01%
South Africa	350,000,000	BB	BB	Baa3	BB+	6.0%	58.2%	0.40%
Turkey	150,000,000	B+	B+	Ba3(N)	BB(N)	16.0%	61.5%	0.48%
Ukraine	148,425,000	CCC+	B-	Caa1	B-	32.2%	60.3%	0.95%
Vietnam	177,900,000	BB-	BB-	Ba3	BB	12.7%	58.2%	0.43%
Total Exposure	**3,045,955,690**							
Weighted Average				**BB**		**7.0%**	**57.8%**	**4.1%**

[5] Expected Loss Rate = PD x LGD.

2.3.5 Private sector exposure

49. The remaining 25 percent of CTF's loan commitments are to private sector entities for which publicly available information is much more limited. The CIF Administrative Unit uses the MDBs' internal risk assessments[6] of the transactions, which are provided in the form of either S&P-equivalent ratings or estimated PDs and LGDs to calculate a weighted average credit rating, PD, LGD, and expected loss rate for the private sector portfolio (see Table 8).

Table 8: CTF public and private sector loan commitments credit risk exposure summary

Loan Portfolio Credit Risk Exposure (as of 3/31/2019)									
Sector	Portfolio Risk Rating	Total Committed Loans (MM USD equivalent)[8]	Estimated Probability of Default (PD)[5]	Estimated Loss Given Default (LGD)[1]	Expected Loss Rate[2]	Expected Losses (MM USD equivalent)[3]	Total Loan Principal in Default[4] (MM USD equivalent)	# of Loans Experiencing Payment Default	Total Loan Principal in Default
Public	BB[4]	3,046.0	7.0%	57.8%	4.1%	123.4	0	0	0%
Private	B+[6,7]	882.4	19.5%	52.5%	10.2%	87.0	32.0	4	3.6%

1. LGDs are based on the Portfolio Risk Rating's mapping to the LGD associated with Moody's credit rating equivalent as published in *Moody's Annual Default Study: Defaults will rise modestly in 2019 amid higher volatility* (i.e. LGD = 1 - Average Sr. Unsecured Bond Recovery Rate from the period of 1983-2018)

2. Expected Loss Rate = PD x LGD, and does not take into account any correlations between the performance of loans within the portfolio

3. Expected Losses are in addition to Actual Losses

4. Derived based on the mapping of the portfolio's Estimated PD to the corresponding rating agency credit rating as published in *Moody's Annual Default Study: Defaults will rise modestly in 2019 amid higher volatility*

5. Represents the weighted average PD (weighted by loan amount) associated with the external rating agency credit rating assigned to each recipient (in the case of split ratings, the PD associated with the lowest of Fitch, Moody's and S&P ratings is used) as of March 31, 2019. 5-year Average Cumulative Issuer-Weighted Global Defalt Rates from the period of 1983-2018 as published in *Moody's Annual Default Study: Defaults will rise modestly in 2019 amid higher volatility* are used.

6. Based on internal credit ratings or PDs assigned to their respective private sector CTF loans by reporting MDBs (EBRD, IDB and IFC), weighted by loan amount. The resulting credit rating for the combined portfolio of private sector CTF loans administered by these three MDBs is then applied to the entire portfolio of private sector CTF loans.

7. Methodologies used to calculate credit ratings and PDs may differ between MDBs, as well as between a given MDB and the external rating agencies three MDBs is then applied to the entire portfolio of private sector CTF loans.
8. Information pertaining to Committed Loans is obtained from the Trustee.

2.4 Resource availability

50. Resource availability risk is the risk that the Trustee will not have sufficient resources, under a respective CIF program, to commit to funding all projects in the program's pipeline. As of March 31, 2019, CTF was experiencing a deficit in available resources of USD 328 million (see Annex A). However, this will be partially offset by project cancellations anticipated for the fourth quarter of FY 2019, and for FY 2020. The risk that CTF will be unable to fund all projects in its pipeline is **Medium**.

51. To mitigate this risk, the CTF Trust Fund Committee, MDBs, and CIF Administrative Unit have all consistently conveyed the message that resource allocations in CTF are not guaranteed during the initial project preparatory stages and that CTF has adopted an over-programming approach in developing the CTF pipeline for planning purposes. The CTF Trust Fund Committee must approve project/program funding.

52. As of March 31, 2019, USD 162 million of the current shortfall in available resources can be attributed to realized and unrealized declines in the value of CTF's GBP-denominated promissory notes (see Section 2.2). An additional USD 68 million must be set aside to mitigate over-commitment risk that could result from further declines in the GBP. In the absence of these currency-related factors, CTF would face a moderate shortfall of approximately USD 100 million.

2.5 Fraud and sexual exploitation and abuse

53. At the January 2019 meeting, the CTF Trust Fund Committee requested that the MDBs provide to the CIF Administrative Unit information regarding fraud and sexual exploitation and abuse in CTF projects implemented by them to the extent that such information is provided to their own MDB boards and subject to any necessary legal/confidentiality arrangements prior to disclosure.

54. The MDBs did not report any allegations or instances of fraud or sexual exploitation and abuse to the CIF Administrative Unit during the period; however, MDBs issue the following annual reports on fraud and corruption highlighting statistics related to their anti-corruption efforts:

- ADB – Office of Anti-Corruption and Integrity Annual Report
- AfDB – Office of Integrity and Anti-Corruption Annual Report
- EBRD – Integrity and Anti-Corruption Annual Report
- IDB – Office of Institutional Integrity Annual Report
- World Bank Group – Integrity Vice Presidency Annual Report

3 Next steps

55. In its continuing work to implement the CIF's Enterprise Risk Management (ERM) Framework, the CIF Administrative Unit will endeavor to assess, monitor, and report interest rate risk exposures for all CIF programs.

[6] Presently EBRD, IDB, and IFC provide internal credit ratings or PDs assigned to their respective private sector CTF loans or loan portfolios. The resulting credit rating for the combined portfolio of private sector CTF loans originated and serviced by these three MDBs is then applied to the entire portfolio of private sector CTF loans.

Annex A: CTF resources available

CTF TRUST FUND - RESOURCES AVAILABLE for COMMITMENTS *Inception through MArch 31, 2019* *(USDeq. millions)*		As of March 31, 2019
Cumulative Funding Received		
Contributions Received		
Cash Contributions		4,988.8
Unencashed promissory notes	a/	450.7
Total Contributions Received		5,439.6
Other Resources		
Investment Income		230.8
Other income	b/	17.8
Total Other Resources		248.6
Total Cumulative Funding Received (A)		**5,688.2**
Cumulative Funding Commitments		
Projects/Programs		6,059.3
MDB Project Implementation and Supervision services (MPIS) Costs		45.3
Cumulative Administrative Expenses		82.2
Total Cumulative Funding Commitments		6,186.8
Admin Budget Cancellations	c/	(5.8)
Project/Program, MPIS Cancellations	d/	(988.1)
Net Cumulative Funding Commitments (B)		**5,192.9**
Fund Balance (A - B)		**495.3**
Country Programming Budget reserve FY19-23	e/	**(1.5)**
Learning and Knowledge Exchange & Special Initiative Budget (Multi-Year)	f/	**(1.3)**
Currency Risk Reserves	g/	**(67.6)**
Unrestricted Fund Balance for Trustee Commitments -Projects/Programs and Admin (C)		**424.8**
Net investment income available for Admin Budget commitments and the loan losses (D)		**169.3**
Unrestricted Fund Balance for Project/Program commitments (E = C - D)		**255.5**
Anticipated Commitments for Projects/Programs (FY19-FY21)		
Program/Project Funding and Fees- CTF Dedicated Private Sector Programs (DPSP)- Phase III		583.5
Total Anticipated Commitments (F)		**583.5**
Available Resources for Projects/Programs (G = E -F)		**(328.0)**
Potential Future Resources (FY19-FY21)		
Contributions not yet paid		-
Pledges		-
Release of Currency Risk Reserves	g/	67.6
Total Potential Future Resources (H)		**67.6**
Potential Available Resources for Projects/Programs (G+H)		**(260.4)**
Potential Net Future Resources for Admin Expenses and Loan Losses		
Projected Investment Income from April 2019 to FY23 (I)	h/	49.1
Projected Administrative Budget (FY20-23) (J)	i/	34.9
Potential Net investment income available for Admin Expenses and Loan losses (K= I -J)		**14.2**
Potential Available Resources for Admin Expenses and Loan Losses (D + K)	j/	**183.5**

a/ This amount represents USD equivalent of GBP 344.71 million.

b/ Return of funds other than reflows due to be returned to the Trust Fund pursuant to the Financial Procedures Agreements consistent with the pertinent CTF funding approved by the CTF Trust Fund Committee.

revisions/cancellations by MDBs, Trustee and CIFAU.

d/ Cancellation of program and project commitments approved by the committee

e/ The amount of USD 0.1 million approved by TFC in June 2018 for the multi-year country programing budget and the balance in reserve estimate provided by CIFAU for the period FY19 - FY23.

million approved by the TFC in June 2018 and the multi year special initiative budget for CTF 2.0 of USD 0.59 million approved by TFC in June 2017, yet to be committed by the Trustee.

g/ Amounts withheld to mitigate over-commitment risk resulting from the effects of currency exchange rate fluctuations in the value of outstanding non-USD denominated promissory notes.

h/ Investment income on undisbursed funds as projected by Trustee through the cash flow model assuming a stable investment environment, steady pace of cash transfers and encashment of unencashed promissory notes.

i/ FY19 Budget commitment approved by TFC on June 2018 was USD 8.36 million for Administrative services. There was also approval for a multi year initiative for 0.84 million. The amount approved for FY19 Administrative Services was extrapolated for 5 years.Projected administrative budget includes resources for administrative services provided by the CIF AU, Trustee and MDBs.

j/ Losses on outgoing CTF Financial Products will be shared by all contributors on a prorata basis and covered to the extent available from the Net income (net investment income, interest and guarentee fees received in excess of 0.75%)