Climate Investment Funds

CTF/TFC.24/5
January 14, 2020

Meeting of the CTF Trust Fund Committee
Nairobi, Kenya
March 2020

Agenda Item 5

CTF Risk Report

PROPOSED DECISION

The CTF Trust Fund Committee reviewed the document, CTF/TFC.24/5, *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.

Contents

1 Introduction

1. This report presents assessments of the more significant risk exposures facing the Clean Technology Fund (CTF). Data as of June 30, 2019 was used to flag projects for implementation risk and compare them with projects flagged in the previous CTF Risk Report (which used data as of December 31, 2018 for implementation risk). Certain projects use more updated information, as indicated in the report. Data as of September 30, 2019, was used to assess the other risks and compare them with risk assessments in the previous CTF Risk Report (which used data as of March 31, 2018 for these risk assessments).
2. The following matrix summarizes CTF's key risk exposures.

Summary Risk Matrix as of September 30, 2019 - CTF			
Risk	**Likelihood**	**Severity**	**Risk Score**
Implementation Risk	Likely	Moderate	High
Currency Risk	Very Unlikely	Minimal	Low
Credit Risk	Likely	Moderate	High
Resource Availability Risk	Possible	Moderate	Medium

3. Implementation risk for CTF remains **High** as seven out of 101 projects representing USD 254 million (six percent) of program funding have been flagged for this risk. The program's implementation risk score has been High for the past five semi-annual reporting cycles.
4. The remaining GBP 345 million of promissory notes were encashed, causing the realized decline in the value of CTF's promissory notes to increase to USD 192 million from USD 101 million. The currency risk from promissory notes has now been eliminated and the program's exposure to this risk is **Low**. The program's currency risk score had been High for the preceding 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 September 30, 2019, five loans were reported to be experiencing payment defaults (three representing EUR 23 million and two representing USD 32 million). The program's credit risk score has been High for the last five semi-annual reporting cycles.
6. Resource availability risk remains **Medium** as a shortfall in available resources of USD 473 million persists.
7. The Dedicated Private Sector Program's (DPSP) portfolio of committed projects now includes projects in low-income countries. This could impact the CTF's portfolio in a number of ways, including heightened implementation risk and credit risk.

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 has added an additional criterion for flagging projects for this risk to account for the heightened implementation risk of projects which extend their anticipated dates of final disbursement. The CIF Administrative Unit now flags a project for implementation risk if the project meets at least one of the following three criteria.

    I. The project has been effective for 36 months but has disbursed less than 20 percent of program funds.

    II. The project is within 15 months of the anticipated date of final disbursement but has disbursed less than 50 percent of program funds.

    III. The anticipated date of final disbursement for the project has been extended, and less than 50 percent of program funds have been disbursed.

10. The MDBs provide this information semi-annually, and the most recent information available is as of June 30, 2019. It is compared with projects flagged in the previous CTF Risk Report (using data as of December 31, 2018)

11. CTF's risk score for implementation risk remains **High** as seven out of 101 projects representing USD 254 million (or 12 percent) of program funding have been flagged for this risk.

12. Table 1 illustrates the six projects representing USD 240 million of program funding which have been flagged under the first criterion (vs. seven projects totaling USD 290 million as of December 31, 2018). All six projects were also flagged in the last CTF Risk Report and are highlighted in orange. The other project (*Second Urban Infrastructure Project (UIP-2) – Ukraine (World Bank*) is no longer flagged under this criterion as disbursements have increased to above 20 percent.

[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	MDB approved funding (USD million)	Cumulative Disb. As of June 30, 2019	Disbursement Ratio	Effectiveness Date	Months After Effectiveness Date	MDB Co-Financing (USD millions)
Ukraine	District Heating Energy Efficiency Project	IBRD	50.0	6.4	13%	11/24/2014	56	332.0
Philippines	Cebu Bus Rapid Transit Project	IBRD	25.0	-	0%	12/3/2014	56	116.0
Ukraine	Second Power Transmission Project	IBRD	48.4	0.2	0%	6/9/2015	49	300.0
Regional	DPSP II: Utility Scale Renewable Energy: Geothermal - Sustainable Energy Facility for the Eastern Caribbean	IDB	19.1	2.0	10%	10/20/2015	45	20.0
Vietnam	Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project	ADB	49.0	0.4	1%	4/1/2015	52	10.0
Vietnam	Ha Noi Sustainable Urban Transport Program - Project 2: Strengthening Sustainable Urban Transport for Hanoi Metro Line 3	ADB	49.0	0.6	1%	7/9/2015	48	4.0

13. **District Heating Energy Efficiency Project – Ukraine (World Bank):** Disbursements increased by USD 1.3 million during the period. This project has been flagged in each of the last four semi-annual reporting cycles.

    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. Finally, Ukraine-specific technical requirements required significant effort in terms of technical norms, design documentation, and State expertise requirements applicable to each individual facility.

    b. *Measures underway to accelerate implementation:* With e-disbursement issues addressed, disbursements were expected to accelerate during the reporting period, but ultimately, only USD 1.3 million was disbursed during the current reporting period (vs. USD 2.2 million disbursed during the prior reporting period). The government will likely seek a project closing extension by 14 months to December 2021. If the government decides to pursue the extension through a project restructuring, the World Bank team will propose using it as an opportunity to streamline the sub-project implementation process, including disbursement arrangements, design documentation, and state expertise requirements, to accelerate the project implementation.

    c. *Estimated timeframe within which the project will have disbursed ≥ 20 percent of CTF funds:* During the last reporting period, disbursement of CTF funds had been expected to reach 20 percent by December 2019, and almost all utilities appeared on course to complete project activities by October 30, 2020. However, given the time required to meet all the Ukraine-specific technical requirements, the government will likely seek a project closing extension by 14 months to December 2021, and disbursement of CTF funds are now expected to reach 20 percent by February 2020.

14. **Cebu Bus Rapid Transit Project – Philippines (World Bank):** All CTF funds remain undisbursed. This project has been flagged in each of the last four semi-annual reporting cycles.

a. *Reason(s) for delay:* The project is in its fifth year of implementation. In January 2018, the implementing agency put the project on hold to reevaluate it while reconsidering its urban transportation development strategy. 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 urged the client to submit fund withdrawal requests for already signed contracts for technical support consultants and social management consultants, however, this did not occur. A catch-up plan to accelerate project implementation has been prepared, requiring the following critical actions:

   - Appointment of a project manager based in Cebu - Two Cebu-based deputy project managers have been appointed and will be on board in mid-October 2019;
   - Resuming detailed engineering design (DED) work – A modified engineering design has been negotiated with the DED consultant and is pending approval by the Department of Transportation (DoTr);
   - Approval of the project phasing and corridor alignment – The DoTr approved this in September 2019;
   - Coordination with Department of Public Works and Highways (DPWH) and National Housing Authority (NHA) in land acquisition and resettlement – The executing agency is working on Memorandums of Agreements with DPWH and NHA on 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 – The transactions advisory consultant and the technical support consultants are working on the options for BRT system manager and bus service contracts. The social management consultant is engaging with industry stakeholders; and
   - Mobilization of transaction advisor for BRT system manager and bus service contracts - The government hired a transaction advisor in July 2019.

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. As of the last CTF Risk Report, the project still needed to re-mobilize the DED consultant, finalize corridor alignment, project phasing, and the DED for the first phase. The DED consultant is expected to resume DED service in October 2019 and to complete the above-mentioned tasks by July 2020, followed by the procurement of the civil works contractor. During the last reporting period, the World Bank team had expected CTF disbursements to reach 20 percent by September 2020, however this estimate has been revised to December 2020.

15. **Second Power Transmission Project – Ukraine (World Bank):** The amount of disbursed CTF funds remains unchanged at USD 0.2 million. This project has been flagged in each of the last three semi-annual reporting cycles.

   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 integrate of the country's Unified Power System into the European Network of Transmission System Operators for Electricity (ENTSO-E). 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 the Ministry of Finance from the 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 was expected to be completed in May 2019, and then payments would 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 the documents' timely preparation, especially for the Supervisory Control and Data Acquisition (SCADA[2]) package. In parallel, the World Bank team has provided quick responses to emerging issues and closely monitored project implementation with frequent video conferences with the client and the consultants.

      The national power company has successfully progressed with the preparation and tender process for the smart grid packages. A bid opening for the SCADA and Wide Area Monitoring System (WAMS) under two lots was held in February 2019, and the company has submitted the Bid Evaluation Report on one lot to the World Bank on June 2019 for review. The government awarded contracts, and the parties to the contracts were negotiating terms as of October 2019.

   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 to 20 percent of CTF financing for the SCADA and WAMS package, which the team expects

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

to occur after the contracts are signed in October 2019.

16. **Utility Scale Renewable Energy: Geothermal - Sustainable Energy Facility for the Eastern Caribbean – DPSP Regional (IDB):** The amount of disbursed CTF funds remains unchanged at USD 2 million. This project has been flagged in each of the last two semi-annual reporting cycles.

    a. *Reason(s) for Delay:* Delays in project execution were due to extended negotiation in St. Vincent and the Grenadines between the geothermal project company (SVGCL) and the local utility (VINLEC) on the Power Purchase Agreement (PPA). There was also the need to renegotiate the joint venture between the government 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.

    b. *Measures underway to accelerate implementation:* The Executing Agency supported the PPA negotiations to expedite the resolution of outstanding issues and disbursement of 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.

17. **Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project (SUT HCMC) – Vietnam (ADB):** For the past five years approximately USD 0.08 million of CTF funds have been disbursed annually. As of the end of September 2019, approximately USD 0.42 million had been disbursed. This project has been flagged in each of the last three semi-annual reporting cycles.

    a. *Reason(s) for delay:* Implementation of the project has been delayed for almost five 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.[3] The government has therefore upheld processing a loan extension for the project. As with the Ha Noi project (see Paragraph 19), the Implementing Agency's (IA) poor capacity and ongoing institutional restructuring process are causing further project delays. The project is on track after the baseline projections for contract award and disbursement were reset in December 2017 following a mid-term review mission in November 2017. Nevertheless,

[3] 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 and the EA was expected to appraise and approve such adjustments by July 2019, but this did not occur. It is now expected to occur by October 2019.

no contracts have been awarded since the loan effectiveness and project financial progress has been low.

b. *Measures underway to accelerate implementation:* To expedite the project, ADB is doing the following:
   - Continuing to follow up and coordinate closely with the IA, and the government, if necessary, on the status of the project's adjustment and loan extension process through missions and tripartite meetings;
   - Conducting due diligence of the new IA's procurement and financial capacity and proposing actions for capacity building; and
   - Coordinating with the IA to update the project schedule and instructing the IA to seek government endorsement of advance consulting service recruitment in parallel with project adjustments.

   Despite these efforts, there has been no project progress due to the ongoing project adjustment process for the parent HCMC MRT Line 2 Project.

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. Only a consulting services (CS) package (external financial audit) is under recruitment. Other CS packages are expected to start from Q2 2019 after the government's approval of project adjustments. ADB anticipates civil works and CTF loan disbursements will start by 2022, and that 20 percent of the CTF loan amount will be disbursed by 2024.

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 June 2019, approximately USD 0.6 million of CTF funds had been disbursed. This project has been flagged in each of the last three semi-annual reporting cycles.

    a. *Reason(s) for delay:* Implementation was delayed for over 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 and resettlement, and a contractor's performance. A change in Implementing Agency (IA) and their poor capacity also contributed to project delays.

    b. *Measures underway to accelerate implementation:* To expedite Project 2, ADB is doing the following:
       - Continuing to provide staff consultant's support to help the IA prepare terms of reference for consulting services;
       - Following up closely with the IA on the status of project adjustments and loan

extension;

- Sending formal reminders of the loan extension to the IA and Ministry of Finance, and a 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; and
- Coordinating closely with the IA to advance the recruitment of the remaining consulting services. 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. However, due to the prolonged loan extension process, ADB has not received a request and thus the CTF loan has expired since June 2019. Based on the updated interface schedule with the parent project, and this project, ADB anticipates that by 2022, 20 percent of the CTF loan amount will be disbursed.

19. Table 2 illustrates that one project (representing USD 13 million of project funding) was flagged under the second implementation risk criterion. This was also flagged in the June 2019 CTF Risk Report.

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)	MDB Board Approval Date	Cumulative Disb. FY19-S2	Disbursement Ratio	Anticipated Date of Final Disbursement	Months Before Anticipated Date of Final Disbursement
Philippines	Market Transformation through Introduction of Energy Efficient Electric Vehicles Project	ADB	13.3	12/11/2012	4.1	31%	9/30/2019	3

20. **Market Transformation through Introduction of Energy Efficient Electric Vehicles Project – Philippines (ADB):** No disbursements of CTF funds were made during the reporting period. This project has been flagged in each of the last four semi-annual reporting cycles.

a. *Reason(s) for delay:* Higher than expected e-trike costs affected demand under the original project design, which resulted in disbursement delays. These challenges also led to loan cancellations of USD 268.1 million and USD 91.7 million under ADB Ordinary Capital Resources and CTF in 2017. These substantial partial loan cancellations led to additional deviations from original disbursement projections.

b. *Measures underway to accelerate implementation:* Revisions to project implementation arrangements were made to address the lower demand after price discovery. The Executing Agency (EA) considered various revised distribution channels for the 3,000 contracted e-trike units, including: sale, auction, donation, and demonstration. These

options were incorporated into the loan documents, which ADB approved in October 2017. ADB and the EA worked together to successfully deploy the 3,000 contracted units under the new arrangements. As of the loan closing date of May 30, 2019, all 3,000 e-trike units had been accepted by various local government units and national government agencies under the donation and demonstration schemes.

c. Estimated *timeframe within which the project will have disbursed ≥ 50 percent of CTF funds*: The loan closed on May 30, 2019. A final minimal disbursement under the grant is expected the end of 2019. Fund utilization under the grant was minimal as procurement of solar charging stations, which comprised 80 percent of the grant allocation, was no longer pursued due to the tight timeline remaining in the loan and grant availability period. The financial closing of the loan has been extended to December 31, 2019. Once the loan is financially closed, undisbursed CTF amounts will be returned.

21. The CIF Administrative Unit received no reports of any CTF projects meeting the third criterion.

2.1.1 MDB cancellation guidelines and criteria

22. During the December 2017 CIF Trust Fund Committees' and Sub-Committees' meetings, members expressed interest in receiving information pertaining to MDBs' potential decisions to cancel projects. Some MDBs have provided the following 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

23. 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.

24. During the reporting period all of the remaining GBP 345 million of promissory notes were encashed, causing the realized decline in the value of CTF's promissory notes to increase to USD 192 million from USD 101 million (see Table 3). The currency risk from promissory notes has now been eliminated and the program's exposure to this risk is **Low**. The program's currency risk had been High for the preceding four semi-annual reporting cycles.

Table 3: CTF currency risk exposure summary

Currency Risk Exposure (Millions) as of September 30, 2019							
Program/ Subprogram	Original Amount Pledged/ Received	Pledged Amount Outstanding/ Unencashed	Realized Currency Gain/ (Loss)	Unrealized Currency Gain/ (Loss)	Risk Likelihood	Risk Severity	Risk Score
CTF	£1,130.0	£0.0	**($191.50)**	**$0.00**	Very Unlikely	Minimal	**Low**

2.3 Resource availability

25. 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. The TFC agreed to accept a certain level of this risk, and to permit over-programming by 30 percent of the program's pledged resources in order to accelerate the implementation of viable projects rather than waiting until after unviable projects had been identified and removed from the pipeline. This is proving to be a successful strategy, enabling accelerated project implementation. However, this policy also necessitates that some resource availability risk be incurred. As of September 30, 2019, CTF's deficit in available resources had increased to USD 473 million (see Annex A) primarily due to the inclusion of the reserve pipeline. The risk that CTF will be unable to fund all projects in its pipeline is **Medium**.

26. 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.

27. As of September 30, 2019, USD 192 million of the current shortfall in available resources can be attributed to realized declines in the value of CTF's GBP-denominated promissory notes (see Section 2.2).

2.4 Credit risk

28. 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.

29. 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.

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

2.4.1 Update on loans currently experiencing payment defaults

31. In May 2019, a payment default involving less than USD 1.0 million of CTF funds occurred relating to a private sector project. As of September 30, 2019, four private sector CTF loans

(EUR 2 million, EUR 5.6 million, USD 12.1 million and USD 19.5 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 September 30, 2019)

		Missed Interest Payments		Repaid Delinquent Interest		Missed Principal Repayments		Repaid Delinquent Principal		Default	Paid Default Inerest		Total
Loan Amount	Currency	Date	Amount	Date	Amount	Date	Amount	Date	Amount	Interest	Date	Amount	Outstanding
2,000,000	EUR					5/30/2018	78,077		(21,390)				1,774,379
						11/30/2018	78,077						
		4/10/2019	11,933		(11,933)	4/10/2019*	1,639,615			2,038		(2,038)	
		5/30/2019	-			5/30/2019	-			9,960		(9,960)	
5,600,000	EUR					8/15/2018	107,692						613,919
						11/10/2018	107,692						
						2/13/2019	107,692						
		5/13/2019	26,091			5/13/2019	107,692						
		8/13/2019	49,368			8/13/2019	107,692						
12,065,953	USD	8/1/2017	245,688			8/1/2017	96,528						1,967,928
		2/1/2018	245,029			2/1/2018	90,495			30,961			
		8/1/2018	241,818			8/1/2018	132,725			21,733			
		2/1/2019	244,325			2/1/2019	90,495			34,567			
		8/1/2019	237,198			8/1/2019	211,154			45,212			
19,500,000	USD	5/15/2019	440,436			5/15/2019	354,215			-			794,651

* Loan acceleration

32. **EUR 2.0 million loan:** 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)[4] associated with the 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.

33. The borrower then defaulted on two principal payments (total CTF contribution EUR 156,153) due May 30 and November 30, 2018. It continued to make payments of interest and accrued default interest. Cash flow problems arose 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.

34. EBRD 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 1) a 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 did not receive acceptable projections and evidence of the funding plan, the loans were accelerated on April 10, 2019 and demands were made from the guarantors. EBRD remained willing to consider a consensual restructuring, but accelerated in case progress was not made and enforcement action was eventually required.

35. Due to operational problems, the plant remains unable to achieve baseline production numbers and, as a consequence, the borrower continues to be unable to meet debt service from cash flow.

36. The sponsor has proposed a capex modification plan aimed at solving the bottleneck and increasing the current production of the plant by approximately 40-50 percent. Capex is to

[4] These amounts include both EBRD and CTF contributions – for reference, CTF portion is EUR 78,000 of principal and EUR 19,000 of interest.

be funded by the sponsor and implemented by November 2019. Only once the capex plan is implemented and operational performance improved will EBRD consider restructuring the loan.

37. EBRD has requested that, pending an agreed restructuring, the borrower should service interest to both EBRD and CTF (approximately EUR 320,000 per year). The payment due May 30, 2019 was not received, as the payment date coincided with a breakdown of one of the two generators and the borrower had to spend about EUR 250,000 to repair it. The generator was re-commissioned at the end of June 2019. During that time, only one generator was working, and the cash flow generated by the borrower was only sufficient to cover operating expenses.

38. Following a reorganization of the renewable energy market, (like other renewables) the project has not received the agreed FiT rate since July 1, 2019. The new electricity market model has not changed any substantive element or legal provision in the renewable support scheme but prompted certain large industrial groups on June 27, 2019 to obtain injunctions which stopped the regulator from imposing certain costs. Until resolved, renewable energy projects receive only part of the FiT, sufficient to cover only operating expenses. It is expected that the new Ukrainian Parliament, once it begins to sit in September 2019, will amend the law and enable resolution of this issue.

39. The borrower has now paid the overdue interest and showed some progress on project implementation. Rescheduling of the loan can be considered once the capex programme is completed and the project is fully operational.

40. **EUR 5.6 million loan:** In June 2018, to allow the second line to be recommissioned, EBRD had extended the grace period for the CTF loan 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.

41. Due to delays in recommissioning the second line by the target date, the project has not generated sufficient cash to pay the first three rescheduled principal instalments, although partial Interest payments continue to be made. The recommissioning 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.

42. The borrower completed recommissioning of the second line of 12MW (vs. first line of 6MW) in March 2019 and began testing until it had to stop in May 2019 for a few weeks to fix some issues.

43. The borrower now claims that the second line has been recommissioned but, as it failed to renew licenses on time, it has not been possible to sell the generated electricity. The license for the first line has now been renewed, which allows electricity to be sold. The license for the second line is not expected until the end of August 2020.

44. Like other renewable producers, the borrower is exposed to the ‘regulator payment issue’

(as described above) resulting in insufficient cash flow to cover operating needs. If both issues (second line license renewal and the regulator's payment capacity) are resolved by September 2019 so the borrower's cash flow generation improves, this would allow the project to produce new financial projections and EBRD to consider a credible restructuring plan.

45. **USD 12 million loan:** Payments on this remain in default although implementation of the corresponding project continues to progress.
46. **USD 20 million loan:** Payments on this remain in default although implementation of the corresponding project continues to progress.

2.4.2 Eskom/South Africa update

47. 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.
48. Although Eskom continues to experience severe financial distress, which is expected to persist for the foreseeable future, the South African government was considering a ZAR 69 billion bailout over three years. It has now substantially increased the size of the bailout to ZAR 230 billion over 10 years.
49. Only one rating agency (Moody's) still rates the South African government as being investment grade (Baa3), however Moody's placed a negative outlook in on South Africa's rating in November. If South Africa's rating is downgraded, the country's ability to raise affordable debt in the capital markets, as well as its ability to support Eskom, will be severely compromised.

2.4.3 Public sector exposure

50. 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).
51. Table 6 summarizes the public sector rating changes that occurred between March 31, 2019 and September 30, 2019.

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

	9/30/2019				3/31/2019			
Country	S&P	Moody's	Fitch	Lowest Rating	S&P	Moody's	Fitch	Lowest Rating
Colombia	BBB-	Baa2	BBB(N)	BBB-	BBB-	Baa2(N)	BBB	BBB-
Egypt	B	B2	B+	B	B	B3(P)	B+	B-
India	BBB-	Baa2	BBB-	BBB-	BBB-	Baa2	BBB-	BBB-
Indonesia	BBB	Baa2	BBB	BBB	BBB-	Baa2	BBB	BBB-
Mexico	BBB+(N)	A3(N)	BBB+(N)	BBB+	BBB+(N)	A3	BBB+(N)	BBB+
Morocco	BBB-(N)	Ba1	BBB-	BB+	BBB-(N)	Ba1	BBB-	BB+
Philippines	BBB+	Baa2	BBB	BBB	BBB(P)	Baa2	BBB	BBB
South Africa	BB	Baa3	BB+(N)	BB	BB	Baa3	BB+	BB
Turkey	B+	B1(N)	BB-(N)	B+	B+	Ba3(N)	BB(N)	B+
Ukraine	B	Caa1	B(P)	CCC+	B-	Caa1	B-	CCC+
Vietnam	BB-	Ba3	BB(P)	BB-	BB-	Ba3	BB	BB-

52. The CIF Administrative Unit uses the five-year probability of default (PD) and loss given default (LGD) metrics associated with each rating, as defined in *Moody's Annual Default Study: Defaults will rise modestly in 2019 amid higher volatility*, to estimate the expected loss rate[5] associated with the public-sector loan portfolio.

53. Egypt and Indonesia's rating upgrades increased the credit quality of CTF's public sector portfolio. These upgrades offset the negative impacts of the USD 22 million decrease in exposure to Columbia (a CTF recipient country with above-average creditworthiness) and USD 46 million increase in exposure to Turkey (a CTF recipient country with below-average creditworthiness). As a result, the portfolio-level expected losses decreased to 4.0 percent from 4.1 percent (see Table 7).

[5] Expected Loss Rate = PD x LGD.

Table 7: CTF public sector loan commitments credit risk exposures by country (as of September 30, 2019)

Public Sector CTF Loan Portfolio - Credit Risk Exposures as September 30, 2019								
			Credit Rating					Expected Portfolio
Beneficiary Country	Loan Amount	Least Rating	S&P	Moody's	Fitch	PD	LGD	Loss Rate
Colombia	67,782,650	BBB-	BBB-	Baa2	BBB(N)	2.2%	56.4%	0.03%
Egypt, Arab Republic of	149,750,000	B	B	B2	B+	20.3%	61.5%	0.61%
India	755,000,000	BBB-	BBB-	Baa2	BBB-	2.2%	56.4%	0.30%
Indonesia	165,000,000	BBB	BBB	Baa2	BBB	1.4%	56.4%	0.04%
Mexico	369,514,000	BBB	BBB+(N)	A3(N)	BBB	1.4%	56.4%	0.09%
Morocco	633,950,000	BB+	BBB-(N)	Ba1	BBB-	5.1%	58.2%	0.61%
Philippines	57,201,690	BBB	BBB+	Baa2	BBB	1.4%	56.4%	0.01%
South Africa	350,000,000	BB	BB	Baa3	BB+(N)	6.0%	58.2%	0.40%
Turkey	196,200,000	B+	B+	B1(N)	BB-(N)	16.0%	61.5%	0.63%
Ukraine	148,425,000	CCC+	B	Caa1	B(P)	32.2%	60.3%	0.94%
Vietnam	177,900,000	BB-	BB	Ba3	BB(P)	12.7%	58.2%	0.43%
Total Exposure	**3,070,723,340**							
Weighted Average			**BB**			**6.9%**	**57.8%**	**4.0%**

2.4.4 Private sector exposure

54. 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).

55. It was identified that some of the PDs assigned to private sector projects were not five-year PDs, and were, therefore, inconsistent with the approach the CIF Administrative Unit has been employing to calculate expected losses. When these PDs were converted to five-year PDs, the expected loss rate associated with the private sector portfolio increased to 14.3 percent from 10.2 percent.

[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.

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

Committed Loan Portfolio Credit Risk Exposure (as of 9/30/2019)									
Sector	Portfolio Risk Rating	Total Committed Loans (MM USD equivalent)[1]	Estimated Probability of Default (PD)[5]	Estimated Loss Given Default (LGD)[6]	Expected Loss Rate[3]	Expected Losses (MM USD equivalent)[2]	Total Loan Principal in Default[5] (MM USD equivalent)	# of Loans Experiencing Payment Default	Loan Principal in Default vs. Total Loan Amount Originated
Public	BB[8]	3,070.7	6.9%	57.8%	4.0%	122.2	0	0	0%
Private	CCC+[7,4]	834.2	30.0%	47.8%	14.3%	111.1	57.9	5	6.9%

1. Committed loan amounts are provided by the Trustee.

2. Expected losses are in addition to total loan principal reported to be in default.

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

4. Methodologies used to calculate credit ratings and PDs may differ amongst MDBs, as well as between a given MDB and external rating agencies.

5. 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*.

6. 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).

7. 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.

8. Based on 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 September 30, 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.

2.5 Fraud and sexual exploitation and abuse

56. 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.

57. 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

2.6 Inclusion of non-CTF countries in the DPSP

58. The DPSP III pipeline includes projects in low-income countries. Including these countries offers an opportunity to effectively combat climate change on a broader scale, but also has a number of risk-related implications for the program.

59. Low-income countries tend to be more exposed to political and economic instability, lack of local level capacity and expertise, or above average exposure to external events such as pandemics and military conflict, all of which tend to impede implementation, so it is likely that CTF's implementation risk would increase depending on the volume of projects implemented in these countries.

60. The inclusion of low-income countries may reduce the credit quality of CTF's portfolio. The impact on loan contributors will depend on the nature of the financial products which are used to fund projects in these countries. For example, loan contributors would share in losses associated with hard term or unsubordinated private sector loans deployed to fund projects in these countries, but not in losses associated with soft term or subordinated private sector loans. Low-income countries, however, are more likely to utilize grants and soft term loans, so the impacts on the CTF portfolio's credit quality and on loan contributors could be minimal if this is the case. Regardless, reflows from projects in these countries would likely be lower than from projects in existing CTF countries.

61. Based on a conservative[7] review of the projects for which funds have been committed for DPSP, the maximum losses in which loan contributors would be expected to share due to exposure to low-income countries is USD 16 million. Of that amount, USD 2.9 million would be allocated to loan contributors.[8]

[7] Only one USD 16 million loan has been committed to a group of countries which includes low-income countries. The CIF Administrative Unit assumed that the entire amount would be allocated to one or more low-income countries and employed a scenario where the entire amount would not be repaid. The proportion of losses simulated to be allocated to loan contributors is based on the proportion of loan contributions relative to total contributions to CTF from all contributors.

[8] In the event that the amount of committed funds allocated to qualifying financial products in low-income countries changes (i.e. through project cancellations and subsequent reprogramming), maximum potential losses would change accordingly.

Annex A: CTF resources available

CTF TRUST FUND - RESOURCES AVAILABLE for COMMITMENTS *Inception through September 30, 2019* *(USDeq. millions)*		As of September 30, 2019
		Total
Cumulative Funding Received		
Contributions Received		
Cash Contributions		5,404.30
Unencashed promissory notes		-
Total Contributions Received		5,404.30
Other Resources		
Investment Income		271.00
Other income	a/	20.26
Total Other Resources		291.26
Total Cumulative Funding Received (A)		**5,695.55**
Cumulative Funding Commitments		
Projects/Programs		6,166.74
MDB Project Implementation and Supervision services (MPIS) Costs		46.10
Cumulative Administrative Expenses		94.25
Total Cumulative Funding Commitments		6,307.09
Admin Budget Cancellations	b/	(5.80)
Project/Program, MPIS Cancellations	c/	(1,128.75)
Net Cumulative Funding Commitments (B)		**5,172.54**
Fund Balance (A - B)		**523.02**
Country Engagement Budget reserve FY20-23	d/	**(1.51)**
Learning and Knowledge Exchange & Special Initiative Budget (Multi-Year)	e/	**(3.39)**
Currency Risk Reserves	f/	-
Unrestricted Fund Balance for Trustee Commitments -Projects/Programs and Admin (C)		**518.12**
Net investment income available for Admin Budget commitments and the loan losses (D)		**197.90**
Unrestricted Fund Balance for Project/Program commitments (E = C - D)		**320.21**
Anticipated Commitments for Projects/Programs (FY20-FY21)		
Program/Project Funding and Fees- CTF Dedicated Private Sector Programs (DPSP)- Phase III (Up to USD 583.5 mn endorsed)		793.35
Total Anticipated Commitments (F)		**793.35**
Available Resources for Projects/Programs (G = E -F)		**(473.14)**
Potential Future Resources (FY20-FY21)		
Contributions not yet paid		-
Pledges		-
Release of Currency Risk Reserves	f/	-
Total Potential Future Resources (H)		-
Potential Available Resources for Projects/Programs (G+H)		**(473.14)**
Potential Net Future Resources for Admin Expenses and Loan Losses		
Projected Investment Income from Oct 2019 to FY23 (I)	g/	72.50
Projected Administrative Budget (FY21-25) (J)	h/	42.69
Potential Net investment income available for Admin Expenses and Loan losses (K= I -J)		**29.81**
Potential Available Resources for Admin Expenses and Loan Losses (D + K)	i/	**227.71**

a/ 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.

CIFAU.

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

d/ The amount of USD 0.5 million approved by TFC in June 2019 for the multi-year country programing budget and the balance in reserve estimate provided by CIFAU for the period FY19 - FY23.

e/ 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. The amount of USD 2.8 million approved by TFC in June 2019 for the multi-year E&L initiative yet to committed by Trustee (For year 2 and 3)

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

g/ 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.

h/ FY20 Budget commitment approved by TFC in June 2019 was USD 8.54 million for Administrative service and an approval for USD 3.05 million for a multi year initiative. The amount approved for FY20 Administrative Services was extrapolated for 5 years.Projected administrative budget includes resources for administrative services provided by the CIF AU, Trustee and MDBs.

i/ 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%)