



Meeting of the CTF Trust Fund Committee

Washington D.C. (Hybrid)

Thursday, June 23, 2022

CTF RISK REPORT - SUMMARY



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PROPOSED DECISION

The CTF Trust Fund Committee reviewed the document, CTF/TFC.28/5/Rev.1, *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.

1 Introduction

- As anticipated during the last TFC meetings in January, on February 24th Russia launched a massive-scale invasion which has devastated Ukraine and will lead to widespread implementation disruptions and defaults on CTF loans. The CIF Administrative Unit now conservatively estimates that defaults will occur on all disbursed amounts for these projects due to the nature of the current military conflict in the nation. The situation on the ground remains fluid and volatile, with no resolution in sight. Large parts of the country in the East and Southeast remain under Russian occupation, and many areas experience intense military action. Communication with a number of sub-projects has been extremely difficult. MDBs and some funding recipients have relocated staff out of Ukraine resulting in challenges in accessing timely data on the status of projects as many project funding recipients are slow to respond, or could not be reached at all.
- As COVID-19 vaccination rates climb, various countries are easing the mitigating measures which have been disrupting project implementation in CIF’s recipient countries, however, vaccination rates in CIF recipient countries remain extremely uneven, and pandemic-related implementation challenges persist. Vaccination rates in African countries continue to lag with over 90 percent of recipient countries from that continent achieving vaccination rates of less than 40 percent. For this reason, all CIF programs continue to face heightened pandemic-related implementation challenges and we continue to see project and program restructuring requests, delays, extensions, cancellations and reprioritizing of co-financing sources away from CIF projects, citing complications resulting from the pandemic (e.g. supply chain disruptions, quarantine requirements, mobility restrictions, etc.). We expect these challenges to subside gradually in countries with robust vaccination rates.

2 Risk Exposure Summary

Data as of December 31, 2021, 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 June 30, 2021 for implementation risk). Certain projects use more updated information, as indicated in the report. Data as of March 31, 2022 was used to assess other risks and compare them with risk assessments in the previous CTF Risk Report (which used data as of September 30, 2021 for those risk assessments).

- The following matrix summarizes CTF’s key risk exposures.

Summary Risk Matrix - CTF			
<u>Risk</u>	<u>Likelihood</u>	<u>Severity</u>	<u>Risk Score</u>
Implementation Risk	Likely	Severe	High
Currency Risk	Possible	Minimal	Low
Credit Risk	Likely	Moderate	High
Resource Availability Risk	Possible	Moderate	Medium

4. Implementation risk for CTF and remains **High**. As of December 31, 2021, 13 out of 150 projects representing USD 589 million (10 percent) of program funding have been flagged for this risk. The program's implementation risk score has been **High** for the past eight reporting cycles. The pandemic has affected six of the projects which are flagged for this risk. The following projects represent the more serious implementation risk concerns for the program

- **Cebu Bus Rapid Transit Project – Philippines (World Bank – USD 25 million CTF Funds)**
 - CTF funds committed in 2012, but no disbursements

- **Ha Noi Sustainable Urban Transport Program - Project 2: Strengthening Sustainable Urban Transport for Hanoi Metro Line 3 – Vietnam (ADB – USD 49 million CTF Funds)**
 - CTF funds committed in 2014, but only USD 1.2 million disbursed
 - ADB cancelled its own loan, but retroactively extended CTF's loan after it had expired and ADB will seek another extension
 - Implementation contingent upon the completion of a parent project, but the parent project no longer has an expected completion date

- **Ha Noi Sustainable Urban Transport Program - Project 1: Ha Noi Metro System Line 3 – Vietnam (ADB – USD 50 million CTF Funds)**
 - CTF funds committed in 2014, but only USD 0.4 million disbursed
 - Implementation contingent upon the completion of a parent project, but the parent project no longer has an expected completion date
 - ADB already extended this project by four years, and intends to extend CTF's loan by another five years to 2027.
 - ADB expects no CTF funds will be disbursed over the next 24 months.

- **Solar Rooftop PV – India (ADB – USD 175 million CTF Funds)**
 - CTF funds committed in 2016, and USD 26.5 million disbursed
 - ADB already extended this project, and intends to extend it up to 10 years further.

- **Rajasthan Renewable Energy Transmission Investment Program – India (ADB – USD 195 million CTF Funds)**
 - CTF funds committed in 2013, and USD 73.5 million disbursed
 - ADB already extended this project, and intends to extend it further.

5. During the reporting period the UK contributed GBP 47 million promissory notes, and the GBP depreciated by 2.4 percent against the USD resulting in an unrealized gain of USD 1 million associated with these notes vs. an unrealized gain of USD 8 million as of the last reporting period. The program's exposure to this risk remains **Low**. It should be noted, however, that as more such promissory notes are received, if these notes remain unencashed for a prolonged

period, they will be exposed to greater fluctuations in value. The program's currency risk score has been **Low** for the past four reporting cycles but had been **High** for the preceding four reporting cycles.

6. Credit risk exposure for CTF remains **High** and expected losses for CTF's loan portfolio increased largely due to the update to assumptions for projects currently under implementation in Ukraine where we are now conservatively estimating that defaults will occur on all disbursed amounts for these projects due to the nature of the current military conflict in the nation. An additional EUR 2.7 million loan in Ukraine defaulted during the period, and as of March 31, 2022, five loans were reported to be experiencing payment defaults (three representing EUR 11 million and two representing USD 14 million). Additionally, a EUR 16 million defaulted loan was sold in 2019. Two additional loans, although not yet experiencing payment defaults, are experiencing significant challenges and are highly likely to experience payment defaults imminently. The program's credit risk score has been **High** for the last six reporting cycles.
7. Resource availability risk remains **Medium**. As of March 31, 2022, CTF's deficit in available resources had decreased to USD 132 million from USD 265 million as reported during the last reporting cycle largely due to additional contributions received from Germany and the UK.



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The Climate Investment Funds

The Climate Investment Funds (CIF) were established in 2008 to mobilize resources and trigger investments for low carbon, climate resilient development in select middle and low income countries. To date, 14 contributor countries have pledged funds to CIF that have been channeled for mitigation and adaptation interventions at an unprecedented scale in 72 recipient countries. The CIF is the largest active climate finance mechanism in the world.



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