Meeting of the CTF Trust Fund Committee

Washington D.C. (Virtual)

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CTF RISK REPORT (SUMMARY)

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PROPOSED DECISION

The CTF Trust Fund Committee reviewed the document, CTF/TFC.25/4, *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

1. Since the last report, global and local economic conditions in all CTF recipient countries where projects are being implemented have significantly deteriorated due to the advent of the COVID-19 pandemic (the pandemic). The pandemic constitutes an unprecedented global macroeconomic shock of uncertain magnitude and duration. The urgent objective of most governments during this crisis is to save lives. The duration of the pandemic is difficult to predict at this time, as are the extent and efficacy of economic interventions by governments and central banks, and recalibration of budgetary priorities in recipient countries. In light of the pandemic, all CIF programs face heightened credit, market and operational risks.

2. More specifically, the CIF Administrative Unit expects the impacts of the pandemic to:

   - delay project implementation;
   - affect the volume and timing of disbursements to funding recipients as projects are delayed;
   - increase project cancellations;
   - increase demand for more concessionality by multilateral development banks (MDBs) and funding recipients for pipeline projects, including requests to convert non-grant financing instruments into grants;
   - affect the timing of repayments from loan recipients due to loan restructurings to allow for longer grace periods and maturities;
   - increase credit risk and expected credit losses.

3. The CIF Administrative Unit is noting that these impacts are already occurring, and this report outlines some of the impacts which the CIF Administrative Unit expects the pandemic to have on project implementation, as well as expected credit losses. Understanding of the length and severity of the impacts of the pandemic will continue to evolve and the CIF Administrative Unit will continue to provide updates on such developments.

4. Developing countries including some CIF recipients, were already heavily indebted coming into the pandemic and face acute fiscal and monetary constraints to buffer the real economy from the adverse effects of the lock down and social distancing measures put in place to limit the pandemic. This heightens the risk of governments in developing countries reneging from funding climate related projects as they focus on ameliorating the effects of the pandemic on the economy. The role and business model of the CTF to provide tailored appropriate concessional financing to incentivize and enable recipient countries to fund climate related projects has become more relevant and urgent to enable a sustainable green recovery.

5. This report presents an assessment of the more significant risk exposures facing the Clean Technology Fund (CTF). Data as of December 31, 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 June 30, 2019 for implementation risk). Certain projects use more updated information, as indicated in the report. Data as of September 30, 2020, 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, 2019 for these risk assessments).

2 Assessment of key risk exposures

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

Summary Risk Matrix - CTF			
Risk	**Likelihood**	**Severity**	**Risk Score**
Implementation Risk	Very Likely	Moderate	High
Currency Risk	Likely	Minimal	Low
Credit Risk	Likely	Moderate	High
Resource Availability Risk	Likely	Moderate	High

2.1 Implementation risk

7. Implementation risk for CTF remains **High** as six out of 104 projects representing USD 271 million (five percent) of program funding have been flagged for implementation risk. The CIF Administrative Unit expects the program's exposure to this risk to increase due to the anticipated impacts of the pandemic. The program's implementation risk score has been **High** for the past six reporting cycles.

8. The CIF Administrative Unit expects the pandemic to delay 50 percent of projects by six to 24 months. Projects already flagged for implementation risk are experiencing further delays due to the pandemic. Specific pandemic-related causes include delays in the mobilization of contractors for the delivery of works and equipment, mandated quarantines, social distancing measures, travel restrictions (domestic and international), and project restructurings and cancellations. In some cases, public sector funding recipients and MDBs are contemplating longer implementation period extensions than they would otherwise.

2.2 Currency risk

9. During the previous reporting period, the Trustee encashed all of the remaining GBP 345 million of promissory notes, eliminating the CTF's currency risk from promissory notes. During the current reporting period, the UK contributed GBP 187 million of new promissory notes, but the currency risk exposure from this new contribution is expected to remain minimal as the unrealized losses associated with these notes is USD 4 million. Thus, the program's exposure to this risk is **Low**. It should be noted, however, that if these notes remain unencashed for a prolonged period, they could be exposed to greater fluctuations in foreign exchange rates. The program's currency risk score has been **Low** for the current and prior reporting cycles but had been **High** for the preceding four reporting cycles.

2.3 Credit risk

10. Credit risk exposure for CTF has increased and remains **High**. Inclusion of lower income countries in the Dedicated Private Sector Program's (DPSP) portfolio, along with the impacts of the pandemic, have increased expected losses associated with CTF. As of September 30, 2020, five loans were reported to be experiencing payment defaults (two representing EUR 8 million and three representing USD 43 million). Additionally, a EUR 16 million defaulted loan was sold in 2019. The program's credit risk score has been **High** for the last six reporting cycles.

11. The effects of the pandemic on countries and the global economy continue to evolve. A major impact on markets includes elevated default conditions as most countries pursue measures to contain the pandemic. As such elevated default conditions persist, external rating agencies have begun downgrading countries and corporates whose creditworthiness have been adversely impacted by the pandemic.

12. The pandemic has also exacerbated the already high debt levels in developing and emerging market economies, such as South Africa and Ecuador, as they continued to borrow to cushion corporates and households from the adverse effects of the necessary lockdown and social distancing measures. Some oil and tourism dependent countries such as Colombia and Maldives have faced twin shocks to their economy resulting in a deeper recession. The CIF Administrative Unit anticipates that losses will increase by 10 percent relative to pre-pandemic expectations.

2.4 Resource availability risk

13. Resource availability risk increased to **High** as the shortfall in available resources increased from USD 473 million to USD 703 million.