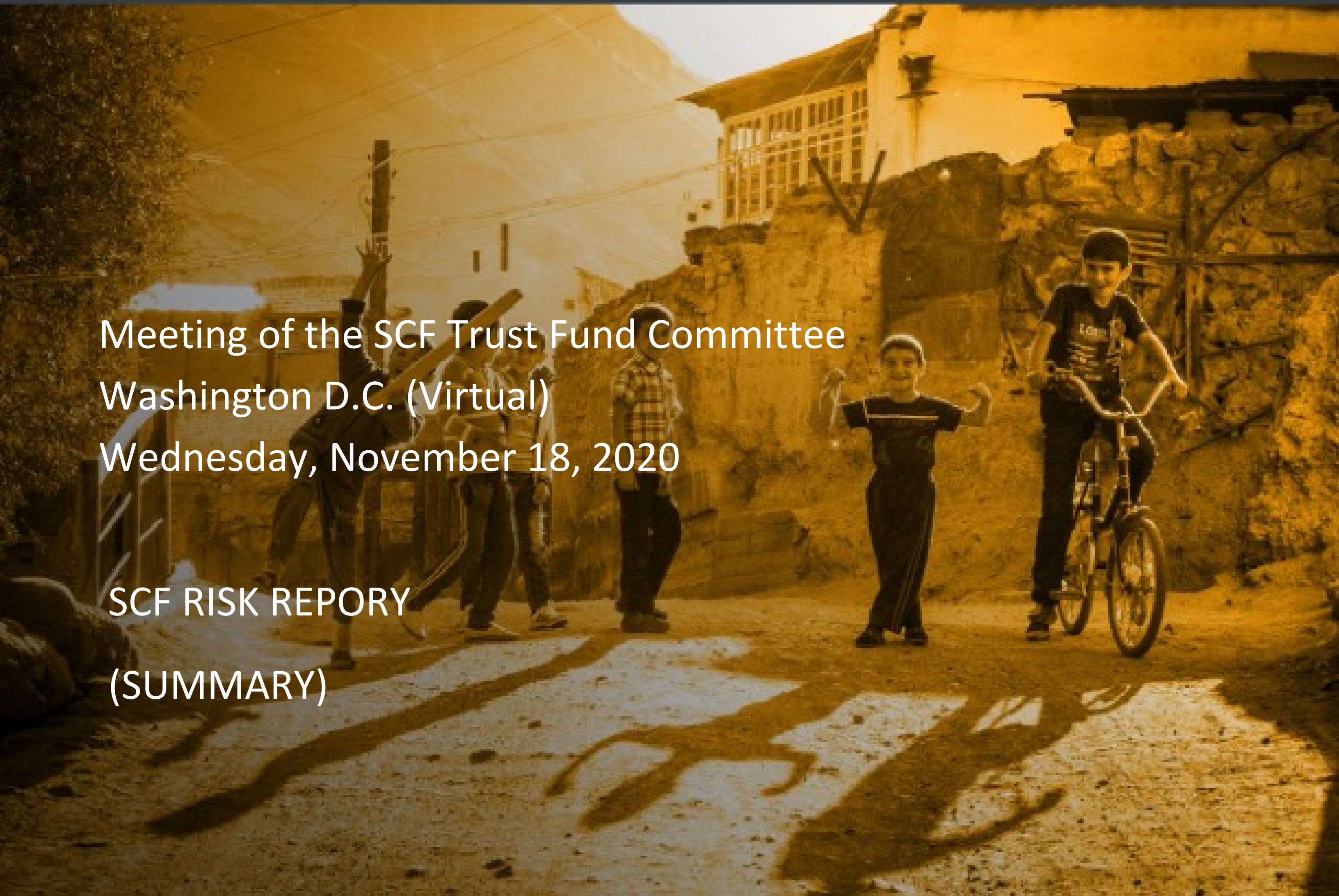
CIF CLIMATE INVESTMENT FUNDS

Investing in the future



Meeting of the SCF Trust Fund Committee

Washington D.C. (Virtual)

Wednesday, November 18, 2020

SCF RISK REPORY

(SUMMARY)

CLIMATE INVESTMENT FUNDS
1818 H Street NW
Washington, D.C. 20433 USA
T: +1 (202) 458-1801
climateinvestmentfunds.org

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PROPOSED DECISION

The SCF Trust Fund Committee reviewed the document, SCF/SC.23/4, *SCF Risk Report*, and welcomes the progress that has been made in advancing the work of SCF.

The SCF 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 Strategic Climate Fund (SCF) 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. The CIF Administrative Unit expects the pandemic to delay 50 percent of projects by six to 24 months. Mandated quarantines, social distancing measures and travel restrictions (domestic and international) are (and are expected to continue to) result in:
   - procurement delays;
   - delays in the mobilization of contractors;
   - delays in delivery of works and equipment; and
   - project restructurings and cancellations.
3. The pandemic is also creating elevated default conditions as most countries pursue measures to contain the pandemic. As such conditions persist, external rating agencies have begun downgrading countries and corporates whose creditworthiness have been adversely impacted by the pandemic.
4. The pandemic has exacerbated the already depleted fiscal and foreign exchange buffers in developing and emerging market economies, such as Mozambique and Zambia, as they embark on fiscal measures to cushion corporates and households from the adverse effects of the necessary lockdown and social distancing measures. In September, Zambia issued a "consent solicitation" to holders of three global bonds, requesting a suspension of debt service payments. Some oil and tourism-dependent countries such as Bolivia and Jamaica have faced twin shocks to their economy resulting in a deeper recession. Jamaica is now cancelling one of PPCR's projects in the country.
5. 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 SCF 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.
6. This report presents an assessment of the more significant risk exposures facing the SCF programs. Data as of December 31, 2019 was used to flag projects for implementation risk and compare them with projects flagged in the previous Risk Reports (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 Risk Reports (which used data as of September 30, 2019 for these risk assessments).

2 Assessment of key risk exposures – FIP

7. The following matrix summarizes FIP's key risk exposures.

Summary Risk Matrix - FIP			
Risk	**Likelihood**	**Severity**	**Risk Score**
Implementation Risk	Likely	Severe	High
Currency Risk	Very Likely	Moderate	High
Resource Availability Risk	Possible	Minimal	Low
Credit Risk	Possible	Moderate	Medium

2.1 Implementation risk

8. Implementation risk for FIP remained **High**, as six out of 41 projects representing USD 104 million (14 percent) of MDB-approved program funding have been flagged for this risk. The program's implementation risk score has been **High** for the past two reporting cycles, and **Medium** for the four reporting cycles prior to that.

2.2 Currency risk

9. Although GBP 49 million promissory notes were encashed during the period, currency risk for FIP remained **High**. The unrealized decline in the value of FIP's uncashed promissory notes decreased to USD 33 million from USD 57 million as reported in the previous reporting cycle, largely due to the GBP 49 million encashment. GBP 131 million promissory notes remain outstanding. The program's currency risk score has been **High** for the last six reporting cycles.

2.3 Resource availability risk

10. Resource availability risk decreased to **Low** from **Medium** during the reporting period as FIP now has a deficit of USD 5 million of capital resources and USD 40 million surplus of grant resources. The program's resource availability risk score was **Medium** in the last reporting cycle and had been **High** for the previous four reporting cycles.

2.4 Credit risk

11. Expected losses associated with committed loan portfolio are USD 22 million and the credit risk associated with the program remains **Medium**.

3 Assessment of key risk exposures – PPCR

12. The following matrix summarizes PPCR's key risk exposures.

Summary Risk Matrix - PPCR			
Risk	**Likelihood**	**Severity**	**Risk Score**
Implementation Risk	Likely	Severe	High
Credit Risk	Possible	Severe	High

3.1 Implementation risk

13. Implementation risk for PPCR remained **High**, as 10 out of 65 projects representing USD 148 million (15 percent) of MDB-approved program funding have been flagged for this risk. The program's

implementation risk score has been **High** for the last six reporting cycles.

3.2 Credit risk

14. Expected losses associated with committed loan portfolio are USD 81 million and the credit risk associated with the program remains **High**.

4 Assessment of key risk exposures – SREP

15. The following matrix summarizes SREP's key risk exposures.

Summary Risk Matrix - SREP			
Risk	**Likelihood**	**Severity**	**Risk Score**
Implementation Risk	Likely	Moderate	High
Currency Risk	Very Likely	Moderate	High
Resource Availability Risk - Sealed and Reserve Pipelines	Possible	Severe	High
Resource Availability Risk - Sealed Pipeline Only	Unikely	Moderate	Low
Credit Risk	Likely	Moderate	High

4.1 Implementation risk

16. In the absence of the anticipated impacts of the pandemic, SREP's risk score for implementation risk would remain **Medium**, however it has increased to **High** due to the expected impacts of the pandemic. Five projects out of 43 projects representing USD 34 million (7 percent) of program funding flagged for this risk. The program's implementation risk exposure has fluctuated between **Low** and **Medium** for the last five reporting cycles.

4.2 Currency risk

17. Currency risk for SREP remains **High** as GBP 94 million promissory notes remain outstanding and have declined in value to USD 27 million. The program's exposure to currency risk via promissory notes has been **High** for the last five reporting cycles.

4.3 Resource availability risk

18. SREP's risk of being unable to fund all projects in the combined sealed and reserve pipelines remains **High**, however there is **Low** risk that SREP will be unable to fund the projects in its sealed pipeline. The program's resource availability risk exposure for the combined sealed and reserve pipelines has been High for the last five reporting cycles.

4.4 Credit risk

19. Expected losses associated with committed loan portfolio are USD 28 million and the credit risk associated with the program remains **High**.