



CTF Risk Report

JANUARY 31, 2019

OUARZAZATE

MOROCCO



Overview

1. Implementation Risk
2. Currency Risk
3. Credit Risk

Implementation Risk

“The risk that, after a project becomes effective, it is not implemented in a timely manner”

The CIF AU flags a project for implementation risk if the project meets at least one of the following two criteria.

1. The project has been Effective for 36 months, but has disbursed < 20% of approved funds.
2. The project is within 15 months of Closing (i.e. the date by which all of the CIF program's funds are to be disbursed), but has disbursed < 50% of approved funds.

Implementation risk for CTF is **High**, with 8 projects representing USD 485 million of approved funding flagged for this risk.

Implementation Risk - Projects flagged under first criterion

Changes from December 31, 2017, to June 30, 2018:

- 7 projects vs. 7 as of December 31, 2017
- USD 285M vs. USD 567M as of December 31, 2017
- Of the 7 projects flagged as of December 31, 4 are still flagged now

Project Title	Country	MDB	Funding Approved by MDB	Cumulative Disbursement (as of June 30, 2018)	Disbursement ratio (as of June 30, 2018)	Effectiveness Date	Months Since effectiveness date	MDB Co-financing (USD millions)
Market Transformation through Introduction of Energy Efficient Electric Vehicles Project	Philippines	ADB	13.1	0.2	2%	12/13/2013	55	300.0
Second Urban Infrastructure Project (UIP-2)	Ukraine	IBRD	50.0	5.2	10%	11/21/2014	44	300.0
District Heating Energy Efficiency Project	Ukraine	IBRD	50.0	2.9	6%	11/24/2014	44	332.0
Cebu Bus Rapid Transit Project	Philippines	IBRD	25.0	-	0%	12/3/2014	44	116.0
Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project	Vietnam	ADB	49.0	0.3	1%	4/1/2015	40	10.0
Second Power Transmission Project	Ukraine	IBRD	48.4	0.2	0%	6/9/2015	37	332.5
Ha Noi Sustainable Urban Transport Program - Project 2: Strengthening Sustainable Urban Transport for Hanoi Metro Line 3	Vietnam	ADB	49.0	0.2	0%	7/9/2015	36	4.2

Implementation Risk - Projects no longer flagged under first criterion

The following projects are no longer flagged.

- *One Wind Energy Program - (Morocco, USD 125 million) - increased disbursements substantially to over 40 percent of approved funding*
- *Eskom Renewable Energy Project CSP (South Africa, USD 250 million) - replaced with a battery storage project*
- *Geothermal Financing and Risk Transfer Facility - (Mexico, USD 54 million) - restructured so its effectiveness date was reset*

Implementation Risk - projects flagged under second criterion

Changes from December 31, 2017, to June 30, 2018:

- 2 projects vs. 2 as of December 31, 2017
- USD 213M vs. USD 263M as of December 31, 2017
- Of the 2 projects flagged as of December 31, 1 is still flagged now
- Eskom Renewable Energy Project CSP - South Africa is no longer flagged

Project Title	Country	MDB	Funding Approved by MDB	Cumulative Disbursement (as of June 30, 2018)	Disbursement ratio (as of June 30, 2018)	Financial Closure	Months Until Financial Closure	MDB Co-financing (USD millions)
Market Transformation through Introduction of Energy Efficient Electric Vehicles Project	Philippines	ADB	13.1	0.2	2%	9/30/2019	15	300.0
Urban Transport Transformation Project	Mexico	IBRD	200.0	62.1	31%	8/30/2019	14	150.0

Currency Risk via Promissory Notes

- Currency Risk exposure remains **High**.
- Between March 31, 2018 and September 30, 2018, the GBP depreciated by 7% against the USD.
- Unrealized decline in the value of the outstanding promissory notes increased to USD 118 million from USD 66 million
- Since March 31, 2018 there have been no further encashments, leaving GBP 517 million outstanding as of September 30, 2018.

Currency Risk Exposure (Millions) as of September 30, 2018							
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	£517.1	(\$47.3)	(\$118.0)	Very Likely	Moderate	High

Credit Risk - Payment Defaults

- As of September 30, 2019, 4 loans were experiencing payment defaults. Three of these projects are still under implementation with possible recovery of defaulted payments.

Loan Amount	Currency	Missed Interest Payments		Missed Principal Repayments		Default Interest	Total
		Date	Amount	Date	Amount		
2,000,000	EUR			5/30/2018	78,077		156,154
				11/30/2018	78,077		
5,600,000	EUR			8/15/2018	107,692		215,385
				11/10/2018	107,692		
12,065,953	USD	8/1/2017	245,688	8/1/2017	96,528		1,104,977
		2/1/2018	245,029	2/1/2018	90,495	30,961	
		8/1/2018	241,818	8/1/2018	132,725	21,733	

- Novoazovsk Wind Project - the EUR 15.5 million loan was sold to investors

Credit Risk - Public Sector Loan Portfolio

- The weighted average credit rating of the public sector loan portfolio is double-B.
- Expected losses declined from 4.4% to 4.5% due to the downgrading of Turkey.

Public Sector CTF Loan Portfolio - Credit Risk Exposures as Sept 30, 2018***									
Beneficiary Country	Loan Amount	Credit Rating					DP	LGD	Expected Portfolio
		Weakest Rating	S&P	Moody's	Fitch	Loss Rate			
Colombia	89,265,000	BBB-	BBB-	Baa2	BBB	2.1%	56.5%		
Egypt, Arab Republic of	149,750,000	B-	B	B3	B	27.2%	61.6%		
India	709,000,000	BBB-	BBB-	Baa2	BBB	2.1%	56.5%		
Indonesia	125,000,000	BBB-	BBB-	Baa2	BBB-	2.1%	56.5%		
Mexico	369,514,000	BBB+	BBB+	A3	BBB+	1.1%	56.5%		
Morocco	633,950,000	BB+	BBB-	Ba1	BBB-	5.3%	58.4%		
Philippines	57,201,690	BBB	BBB	Baa2	BBB	1.4%	56.5%		
South Africa	350,000,000	BB	BB	Baa3	BB+	6.2%	58.4%		
Turkey	150,000,000	B+	B+	Ba3	BB	16.7%	61.6%		
Ukraine	148,425,000	CCC	B-	Caa2	B-	39.0%	62.5%		
Vietnam	177,900,000	BB-	BB	Ba3	BB	13.2%	58.4%		
Total Exposure	2,960,005,690								
Weighted Average		BB				7.7%	58.1%	4.5%	

Credit Risk - Private Sector Loan Portfolio

- The weighted average credit rating of the private sector loan portfolio is between “B” and “B+”.

Loan Portfolio Credit Risk Exposure (as of 9/30/2018)									
Sector	Portfolio Risk Rating	Total Committed Loans (MM USD equivalent) ⁹	Estimated Probability of Default (PD) ⁶	Estimated Loss Given Default (LGD) ¹	Expected Loss Rate ²	Expected Losses (MM USD equivalent) ³	Total Principal of Loans in Default ⁴ (MM USD equivalent)	# of Loans Experiencing Payment Default	Total Loans in Default vs. Total Committed Loans
Public	BB ⁵	2,960.0	7.7%	58.1%	4.5%	131.7	0	0	0%
Private	B+ ^{7,8}	934.3	19.5%	52.5%	10.2%	92.3	32.0	4	3.4%

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: Corporate Default and Recovery Rates, 1920-2017* (i.e. LGD = 1 - Average Sr. Unsecured Bond Recovery Rate from the period of 1983-2016)

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. Includes portions of loans which have been written down

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: Corporate Default and Recovery Rates, 1920-2017*

6. 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 September 30, 2018. 5-year Average Cumulative Issuer-Weighted Global Default Rates from the period of 1983-2017 as published in *Moody's Annual Default Study: Corporate Default and Recovery Rates, 1920-2017* are used.

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

9. Information pertaining to Committed Loans is obtained from the Trustee.

Credit Risk - Stress Testing (Scenario 1)

The impact of a 2-notch rating downgrade for all public sector and private sector entities was examined.

Scenario 1: Two Notch Downgrade					
Sector	Total Committed Loans (MM USD equivalent)	Estimated Probability of Default (PD)	Estimated Loss Given Default (LGD)	Expected Loss Rate	Expected Losses (MM USD equivalent)
Total	3,894.3	18%	61%	11%	409.4

Credit Risk - Stress Testing (Scenario 2)

The impact of 2 countries defaulting was examined.

Total Committed Loans (MM USD equivalent)	Estimated Probability of Default (PD)	Estimated Loss Given Default (LGD)	Expected Loss Rate	Expected Losses (MM USD equivalent)
3,894.3	27%	56%	17.03%	663.0

Fraud Risk Update

- 4 MDBs have agreed to report this information.
- No instances of fraud or credible allegations of fraud have been reported by 2 of these MDBs, and the other two 2 MDBs are currently following up to confirm whether this is the case.

Sexual Exploitation and Abuse (SEA)

At the June 2018 Committee meetings the members requested the CIFAU examine the potential for reporting on incidents of SEA.

- MDBs acknowledge the importance systematically addressing this issue and 10 IFIs signed a joint statement outlining principles addressing this issue at the DFID summit in October 2018.
- The MDBs are at varying stages of progress towards developing formal policies and procedures for addressing SEA (i.e. developing guidance and good practice notes, training staff, establishing/clarifying internal reporting channels, refining grievance redress mechanisms, and other preventive and detective measures)



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