

# CLIMATE INVESTMENT FUNDS

PPCR/SC.22/4  
May 17, 2018

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Meeting of the PPCR Subcommittee  
Washington D.C.  
Thursday, June 7, 2018

Agenda 4

**RISK REPORT OF THE PPCR**

## I. HIGHLIGHTS

1. At the December 11, 2017 meeting, the Strategic Climate Fund (SCF) Trust Fund Committee (TFC), reviewed the Report of the Trustee on the Financial Status of the SCF and noted that the investment income of the SCF Trust Fund is not currently expected to be sufficient to cover the costs of the projected level of administrative services by the CIFAU, MDBs, and the Trustee up to 2028. The Committee requested the CIFAU, working in collaboration with the MDBs and the Trustee, to undertake a full analysis which would explore practical options for financing administrative expenses, costs reductions and attribution of administrative expenses amongst the SCF programs. The Committee also decided to pause the approval of any funding within the SCF other than that of project preparation grants, until such time that the Committee had reviewed the analysis and decided on a way forward.
2. At the intersessional meeting held on March 8, 2018, the SCF TFC considered the proposals for addressing the shortfall in the SCF Trust Fund set out in the document entitled Long-term SCF Administrative Costs and Funding Options developed by the CIFAU, MDBs, and Trustee. The Committee decided on a means to apportion administrative costs between SCF programs and agreed that reflows from SCF loans may be used to finance the potential shortfall of grant resources to cover administrative costs after they become available in each program. The Committee further agreed that the pause in approval of SCF funding be lifted.
3. Presently, the Implementation Risk represents the most material risk to which the PPCR is exposed. Implementation Risk for the PPCR remains **High** as 13 projects representing USD 187 million of approved funding have been flagged for this risk. This paper provides an update on the assessment of this risk exposure. Data as of December 31, 2017, was used to flag projects for Implementation Risk (however in some cases more updated information is available and it is noted in the report when this info is used).
4. Resource Availability Risk is no longer reported as the PPCR has sufficient resources to fund all projects in its active pipeline.
5. Currency Risk is no longer reported as the PPCR only has GBP 9.8 million of promissory notes outstanding which are in the process of being encashed.
6. Since the last SCF TFC Meeting in December, the Risk Analyst joined the CIFAU.
7. The CIFAU has been working to establish information sharing protocols with the MDBs for receiving information pertaining to fraud and corruption related to CIF projects, and has now established such an arrangement with one of the MDBs.

***Definition of Risk: Any threat to the achievement of the PPCR's objectives.***

8. This definition, along with the definition of the PPCR's objectives, establish the context for the ERM Framework.

## **II. ASSESSMENT OF KEY RISK EXPOSURES – PPCR<sup>1</sup>**

***i. Implementation Risk – the risk that, after a project becomes effective, it is not implemented in a timely manner***

9. The CIFAU flags a project for implementation risk if the project meets at least one of the following two criteria.
  - I. The project has been effective for 36 months, but has disbursed < 20% of approved funds.
  - II. The project is within 15 months of closing (i.e. the date by which all CTF funds are to be disbursed), but has disbursed < 50% of approved funds.
10. The MDBs provide this information semi-annually, and the most recent information available is as of December 31, 2017.
11. The PPCR's overall risk score for implementation risk is **High** as 13 projects representing USD 187 million of approved funding have been flagged for this risk.
12. Table 1 illustrates that, four projects (vs. seven as of June 30, 2017) representing USD 45 million (vs. USD 116 million as of June 30, 2017) of approved funding have been flagged under the first criterion. Three of these four projects had also been flagged as of June 30, 2017, and the remaining four of the seven projects which had been flagged as of June 30, 2017, have all increased disbursements to above 20% of MDB approved funding and are therefore no longer flagged.

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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.

**Table 1. PPCR Public Sector Projects which have been Effective for 36 months, but have Disbursed < 20% of Approved Funds (USD millions)**

Project Title	Country	MDB	MDB Approved Funding	Cumulative Disbursement	% Disbursed	Effectiveness Date	Months since Effective
GMS Southern Economic Corridor Towns Development Project	Cambodia	ADB	9.4	0.9	10%	4/8/2013	57.6
Enhancing Climate Resilience for West Coast Road Project	South Pacific-Samoa	IBRD	14.8	1.8	12%	4/26/2013	57.0
Climate Information Development and Forecasting Project (PDIPC)	Niger	AFDB	13.0	2.0	15%	12/17/2013	49.2
Centre Artibonite Regional Development Project	Caribbean-Haiti	IBRD	8.0	1.1	14%	10/6/2014	39.4

13. GMS Southern Economic Corridor Towns Development Project - Cambodia: Due to the increase of requisite construction works and in turn materials, there is a need to revise scope of the wastewater treatment subprojects to fit within the available budget. ADB will continue to closely monitor progress under civil works contracts and address issues on a timely basis to avoid further implementation delays to ensure that disbursements accelerate.
14. Enhancing Climate Resilience for West Coast Road (WCR) Project – South Pacific-Samoa: Delays were caused by issues with the design of the WCR works largely attributed to significant capacity shortfalls within the Government of Samoa (GoS). In May 2017, GoS delivered an action plan to address capacity shortfalls in project management, procurement, financial management and safeguards by hiring additional advisors and restructuring the existing project management consultancy's contract. Most of the measures have been implemented and the remaining action is well progressed.
15. Climate Information Development and Forecasting Project (PDIPC) – Niger: Delays were caused by the low capacity of the Project Implementation Unit, staff turnover, and low level of progress of the procurement plan. Also, the internal control system of the project has significant weaknesses which has resulted so far in (i) exceeding contractual deadlines; (ii) long processing times for direct payment requests; (iii) limitations in monitoring the implementation of conventions and protocols signed with partners.
16. AfDB recommended the recruitment of an accounting supervisor. Also, it made several recommendations including the monitoring of contracts with suppliers and service providers, monitoring the protocols signed with partner structures and; increasing support to the Administrative and Financial Officer and the Monitoring and Evaluation Officer to ensure consistency in the implementation of operations.
17. Centre Artibonite Regional Development Project – Caribbean-Haiti: Slow pace of implementation is due to: (i) major investment not yet procured; and (ii) low appropriation of the execution arrangements by the Project's stakeholders.
18. Table 8 illustrates that 11 projects (vs. three as of June 30, 2017) representing USD 170 million (vs. USD 23 million as of June 30, 2017) of approved funding has been flagged under

the second criterion. All three of the projects which had been flagged as of June 30, 2017, are still flagged.

**Table 2. PPCR Public Sector Projects within 15 months of Closing, but which have disbursed < 50% of approved funds (USD millions)**

Project Title	Country	MDB	MDB Approved Funding	Cumulative Disbursement	% Disbursed	Final Disbursement Date	Months until Final Disbursement Date
Building Capacity for Climate Resilience	Tajikistan	ADB	6.00	2.79	46%	5/13/2017	(7.7)
Provincial Roads Improvement Project - Climate Proofing of Roads in Prey Veng, Svay Rieng, Kampong Chhnang and Kampong Speu Provinces	Cambodia	ADB	17.00	8.25	49%	6/1/2017	(7.1)
Climate Proofing of Agricultural Infrastructure and Business-focused Adaptation	Cambodia	ADB	9.5	1.97	21%	6/30/2017	(6.1)
Environmental Land Management and Rural Livelihoods - AF	Tajikistan	IBRD	2.00	0.81	40%	5/1/2018	4.0
Enhancing Climate Resilience for West Coast Road Project	South Pacific-Samoa	IBRD	14.80	1.83	12%	8/31/2018	8.1
Building Resilience to Climate-Related Hazards	Nepal	IBRD	31.00	13.40	43%	11/30/2018	11.1
Climate Resilience: Transforming Hydro-Meteorological Services	Mozambique	IBRD	15.00	5.59	37%	12/1/2018	11.2
Water Resources Mobilization and Development Project (PROMOVARE)	Niger	AFDB	22.00	6.15	28%	12/31/2018	12.2
Climate Information Development and Forecasting Project (PDIPC)	Niger	AFDB	13.00	1.97	15%	12/31/2018	12.2
Disaster Vulnerability and Climate Risk Reduction Project	Caribbean-Grenada	IBRD	25.00	10.81	43%	12/31/2018	12.2
Enhancing the Climate Resilience of Coastal Resources and Communities	South Pacific-Samoa	IBRD	14.60	4.67	32%	12/31/2018	12.2

19. Building Capacity for Climate Resilience (Tajikistan): Progress was delayed by frequent turnover of the consultant team leader. Slow submission of claims by the consultant has delayed disbursements. ADB is expediting this by requesting the consultant's submission of claims. Progress on several key performance targets remain delayed, and in May 2017 the TA closing date was extended to May 2018.
20. Provincial Roads Improvement Project - Climate Proofing of Roads in Prey Veng, Svay Rieng, Kampong Chhnang and Kampong Speu Provinces (Cambodia): A prolonged rainy season slowed progress of construction work.
21. Climate Proofing of Agricultural Infrastructure and Business-focused Adaptation (Cambodia): Planned actions to address the implementation delays include (i) the awards of 6 civil works in 2017 amounting to USD 2.36 million and 4 more packages expected to be awarded in Q2 2018, (ii) awards of consulting services and non-civil work packages under the PPCR. The baseline projections will be reviewed and revised during the Mid-Term review mission scheduled in May 2018.
22. Environmental Land Management and Rural Livelihoods – AF (Tajikistan): A detailed work plan on remaining and new project activities was agreed with the Implementation Group to ensure timely completion and full disbursement within the project closing date. Project savings of approximately USD 0.49 million from the three components under the original

project will be used to support additional investments.

23. Building Resilience to Climate-Related Hazards (Nepal): Delays were caused due to slow procurement processes by the implementing agencies - Department of Hydrology and Metrology (DHM) and, Ministry of Agriculture Development (MOAD)/National Agriculture Research Center (NARC). Although significant progress has been made in the past 6 months, the project team has been working with the implementing agencies in reviewing the work plan and reprogramming activities to ensure realistic timelines and completion of activities by the project closing date.
24. Climate Resilience: Transforming Hydro-Meteorological Services (Mozambique): Delays were caused due to continuing poor quality of procurement packages and, ineffective collaboration and cooperation between the implementing agencies- National Director Water Resource Management(DNGRH), and National Meteorology Institute (INAM). Actions undertaken to address the implementation delays include: (i) appointment of an assistant coordinator and, (ii) hiring of UK-Met as technical assistance to INAM to improve quality of procurement packages.
25. Water Resources Mobilization and Development Project (PROMOVARE) (Niger): Cumbersome approval processes and the low capacity of the PIU in terms of procurement and financial management has led to implementation delays. For each of the sub-components, AfDB has prepared an action plan to accelerate project activities and recommended the recruitment of an accounting supervisor.
26. Disaster Vulnerability and Climate Risk Reduction Project (Grenada): Over 60% of the MDB approved funding has now been disbursed and this project will no longer be flagged for this risk. Delays were due to changes in key decision-makers in the Ministry of Finance and prolonged periods of vacancy within these positions which have delayed key Project decisions from being taken. Staff turnover has also led to implementation challenges. Planned actions to address the implementation delays include: (i) recruitment of additional technical consultants to support the activities being undertaken by the Project and serve as additional resources to the Government, (ii) procurement processes to fill key Project vacancies and, (iii) ongoing discussions with newly introduced decision-makers.

### **III. NEXT STEPS**

27. As the CIFAU continues to implement the CIF's ERM Framework, the CIFAU will endeavor to undertake the following actions and initiatives.
  - I. Implement a fraud risk reporting framework with the remaining MDBs by Q2 FY 2019.

II. Circulate a paper for TFC approval, proposing risk tolerance levels for each risk which is identified, assessed, monitored and reported via the risk dashboards by the end of June 2018.

III. Work with the MDBs to clarify terminology for the private sector equivalent of Effective Date and Financial Closing Date, and explore whether the CIFAU may gather these data points and aggregate private sector projects' exposure to implementation risk by end of FY 2019.

IV. Assess, monitor and report credit risk exposures for each SCF program, now that the SCF programs are relying on reflows to cover administrative costs by Q2 FY 2019.