

CLIMATE INVESTMENT FUNDS

PPCR/SC.23/4
December 21, 2018

Meeting of the PPCR Sub-Committee
Ouarzazate, Morocco
February 1, 2019

Agenda 4

PPCR RISK REPORT

1 Introduction

1. In July, an initial draft Risk Appetite Statement for the Pilot Program for Climate Resilience (PPCR) was circulated to the PPCR Sub-Committee. The final draft incorporating Sub-Committee comments will be circulated for approval in December 2018.
2. In this report, the severity thresholds for assessing implementation risk were broadened to reflect, more accurately, the nature of this risk (see Assessment of Key Risk Exposures).
3. Presently, implementation risk represents the most material risk to which PPCR is exposed. Implementation risk for PPCR remains **High** as eight projects representing USD 135 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 June 30, 2018 was used to flag projects for implementation risk, with certain projects using more updated information, where available.
4. The remaining GBP 9.8 million of promissory notes have been encashed and PPCR is no longer exposed to the corresponding currency risk.

2 Assessment of key risk exposures¹

5. For PPCR, the definition of risk is any threat to the achievement of PPCR's objectives. This definition, along with the definition of PPCR's objectives, establishes the context for appraising the PPCR's risk exposures.
6. Implementation risk is the risk that a project, once effective, is not implemented in a timely manner. The CIF Administrative Unit flags a project for implementation risk if the project meets at least one of the following two criteria:
 - The project has been effective for 36 months but has disbursed less than 20 percent of approved funds.
 - The project is within 15 months of closing (i.e., the date by which all PPCR funds are to be disbursed) but has disbursed less than 50 percent of approved funds.
7. The MDBs provide this information semi-annually, and the most recent information available is as of June 30, 2018. PPCR's overall risk score for implementation risk is **High** as eight projects representing USD 135 million of approved funding have been flagged for this risk.
8. Table 1 illustrates that five projects representing USD 94 million of MDB-approved funding have been flagged under the first criterion (vs. four projects totaling USD 45 million as of December 31, 2017). While one of the four projects flagged in 2017 is no longer at risk, having increased disbursement to above 20 percent of MDB-approved funding (Climate Information Development and Forecasting Project – Niger), three projects remain on the 2018 list and are highlighted in orange.

¹ 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.

However, because the impact on funds exposed to implementation risk may simply be delays in the implementation of projects which are ultimately successful (vs. a complete loss of funding for projects as is the case with currency), the following ranges are used to classify implementation risk severity.

- Severe represents an estimated potential impact > 10% of the program's total pledges and contributions.
- Moderate represents an estimated potential impact 5% - 10% of total pledges and contributions.
- Minimal represents an estimated potential impact < 5% of total pledges and contributions.

Table 1. PPCR public sector projects effective for 36 months with less than 20 percent of MDB-approved funds disbursed (USD millions)

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)
GMS Southern Economic Corridor Towns Development Project	Cambodia	ADB	9.4	1.5	16%	4/8/2013	64	38.5
Enhancing Climate Resilience for West Coast Road Project	Samoa	IBRD	14.8	2.1	14%	4/26/2013	63	-
Centre Artibonite Regional Development Project	Haiti	IBRD	8.0	1.1	14%	10/6/2014	45	42.0
Cities and Climate Change	Mozambique	IBRD	15.8	-	0%	4/7/2015	39	120.0
Climate Resilience - Integrated Basin Management Project	Bolivia	IBRD	45.5	4.8	10%	6/8/2015	37	-

9. GMS Southern Economic Corridor Towns Development Project – Cambodia (ADB):

Implementation has been slow mainly due to the delays in finalizing the detailed engineering designs of the remaining packages and in updating safeguards (environment and resettlement) documents, which are the covenants to award civil works contracts as well as to start construction activities. These challenges have been resolved and the project is now progressing smoothly.

10. Enhancing Climate Resilience for West Coast Road (WCR) Project – South Pacific-Samoa (World Bank):

The task team has worked closely with the Government to improve progress. In parallel, the project was restructured in FY18 and the closing date was extended to enable the Government to complete the road works on time. In addition, West Coast Road works commenced on October 1, 2018, a major milestone and marking the single largest project disbursement with the first payment to the road contractor. Disbursements will accelerate rapidly between now and the new closing date of June 2020.

11. Centre Artibonite Regional Development Project – Caribbean-Haiti (World Bank):

Implementation progress has been rated Moderately Unsatisfactory for the last 12 months due to persistent challenges stemming from design complexity and lack of institutional coordination at various levels. The recently completed project restructuring includes realigned activities, the addition of a new implementing entity to manage the project's largest component on road infrastructure (USD 37 million) and streamlining and fine-tuning of the scope of some key activities. It is already showing good results and has contributed to speeding up implementation.

12. During the last implementation period, the project progressed on institutional coordination and ownership and involvement of partners. **Since June 30, 2018, the disbursement rate for this project has increased to 20 percent so it will no longer be flagged under this criterion going forward.** A USD 10.6 million contract with UNOPS was signed in October 2018 and several additional contracts (for a total of amount of USD 1 to 3 million) are expected to be signed by the end of December 2018. A substantial number of procurement contracts (more than 10) are being launched. Based on the current figures, the disbursement rate could reach 30 percent by December 2018.

13. These recent developments are positive but efforts to accelerate project implementation and reach tangible results must continue. A close follow-up needs to be done to ensure

seamless implementation of the large procurement packages in the pipeline. A supervision mission will be performed in December 2018.

14. **Cities and Climate Change – Mozambique (World Bank):** The project has suffered from persistent delays due to a protracted process to agree on the design of the optimized hydromet network, as well as procurement-related delays on the strategic technical assistance (funded by Nordic Development Fund) to the National Institute of Meteorology (INAM). Weak cooperation between the National Directorate of Water Resources (DNGRH), the implementing agency and INAM also has been a factor.
15. Over the last eight months, the implementing agency has made significant efforts to enhance project performance, including hiring an assistant coordinator, improving due-diligence on both procurement and technical activities, and streamlining hydromet operations and coordination between the two agencies. Approximately 35 percent of project funds (USD 5.23 million) were committed in the last six months, leading to a cumulative commitment of 80 percent (USD 12.1 million). Thus, all key activities have been procured, except for the weather radar upgrade which is pending project extension (a request that is currently under review). **Since June 30, 2018, disbursements have reached 52 percent (USD 7.75 million) so the project will no longer be flagged for implementation risk in the next risk report.** Disbursements are projected to reach 75 percent by June 2019. The remaining 25 percent is planned to be disbursed in the first quarter of FY20, once all equipment packages have been delivered.
16. **Climate Resilience Integrated Basin Management Project – Bolivia (World Bank):** The initial expectations of high counterpart funds from municipalities and state governments did not materialize and a project restructuring had to be undertaken. Furthermore, substantial delays were incurred due to the cancellation of the Santa Cruz pilots. The project has already launched the following key activities: 1) water basin directorate plans and integrated watershed management, 2) irrigation and erosion prevention subprojects, and 3) installation of hydrometeorological stations, among others. Furthermore, the basis for contracting key works and services has been set, which will further advance implementation.
17. Table 2 illustrates that four projects representing USD 42 million of MDB-approved funding have been flagged under the second criterion (vs. 11 projects totaling USD 170 million as of December 31, 2017). While two projects flagged in 2017 remain at risk and are highlighted in orange, the following three projects are no longer flagged as disbursements have *increased to above 50 percent of approved funding.*
 - *Disaster Vulnerability and Climate Risk Reduction Project – Grenada*
 - *Building Capacity for Climate Resilience – Tajikistan*
 - *Provincial Roads Improvement Project – Climate Proofing of Roads in Prey Veng, Svay Rieng, Kampong Chhnang and Kampong Speu Provinces – Cambodia*

18. The following five projects are no longer flagged because they have *extended the financial closure dates*.

- Enhancing Climate Resilience for West Coast Road Project – Samoa
- Enhancing the Climate Resilience of Coastal Resources and Communities – Samoa
- Building Resilience to Climate-Related Hazards/Building Resilience to Climate-Related Hazards-Additional Funding – Nepal
- Climate Information Development and Forecasting Project (PDIPC) – Niger
- Water Resources Mobilization and Development Project (PROMOVARE) – Niger

Table 2. PPCR public sector projects within 15 months of closing with less than 50 percent of approved funds disbursed (USD millions)

Project Title	Country	MDB	Funding Approved by MDB	Cumulative Disbursement (as of June 30, 2018)	Disbursement ratio (as of June 30, 2018)	Cumulative Disbursement (as of Dec 31, 2017)	Financial Closure	Months Until Financial Closure	MDB Co-financing (USD millions)
Climate Proofing of Agricultural Infrastructure and Business-focused Adaptation	Cambodia	ADB	9.5	2.7	28%	2.0	6/30/2017	(12)	55.0
Climate Resilience: Transforming Hydro-Meteorological Services	Mozambique	IBRD	15.0	6.8	45%	5.6	6/30/2019	12	-
Enhancement of Flood and Drought Management in Pursat Province	Cambodia	ADB	9.8	3.9	40%	3.2	9/30/2019	15	-
Promoting Climate-Resilient Agriculture in Koh Kong and Mondulkiri Provinces as part of the Greater Mekong Subregion Biodiversity Conservation Corridors Project	Cambodia	ADB	7.4	1.0	13%	0.7	9/30/2019	15	19.0

19. **Climate Resilience: Transforming Hydro-Meteorological Services – Mozambique (World Bank)** is described in paragraphs 14 and 15.

20. **Climate Proofing of Agricultural Infrastructure and Business-focused Adaptation – Cambodia (ADB):** Due to poor performance, in June 2015 the project implementation consultant (PIC) contract was suspended for a period of two months. The team resumed work in August 2015. But the performance of the PIC did not improve significantly and finally both the EA and the firm mutually agreed to close the contract on 15 May 2017. The long delay in the initial mobilization, followed by the suspension and then closure of the PIC contract led to significant delays in project implementation. Advance preparation to recruit individual consultants, once the PIC contract was closed, was initiated and all individual consultants are on board now. This has resulted in significant improvements in contract awards and disbursements. **The cumulative disbursement increased to USD 19.8 million in September 2018 and this project will no longer be flagged for implementation risk in the next risk report.**

21. The paddy drying and storage facilities, as well as the weather-crop insurance, required redesign, which has been approved by ADB management and senior government and is now under implementation. The baseline projections have been revised and the project is under accelerated implementation and on track since Q2 2018.

22. **Enhancement of Flood and Drought Management in Pursat Province – Cambodia (ADB):** Although this project has been flagged, since June 30, disbursements have reached 40 percent of approved funds and are at or above expectations.

23. Promoting Climate-Resilient Agriculture in Koh Kong and Monduliri Provinces as part of the Greater Mekong Subregion Biodiversity Conservation Corridors Project – Cambodia (ADB): The civil work subprojects will be implemented in certain protected areas, where Monduliri indigenous peoples live. Due to this, the process for clearing environmental and social safeguards has required more time than expected. ADB environment and safeguards team has provided intensive guidance to ensure every subproject complies with requirements. It is expected that all subprojects will receive their environment and safeguard documents' clearance, and the bidding process will start in Q1 2019.

3 Next steps

24. In its continuing work to implement the CIF's ERM Framework, the CIF Administrative Unit will endeavor to undertake the following actions and initiatives.

- 1) Continue to work with the MDBs to implement a fraud risk reporting framework by end of FY2019.
- 2) Investigate the potential to implement a sexual exploitation and abuse risk management framework.
- 3) Assess, monitor, and report credit risk exposures for each Strategic Climate Fund (SCF) program, now that the SCF programs are relying on reflows to cover administrative costs, by end of FY2019.