

CLIMATE INVESTMENT FUNDS

PPCR/SC.24/4
May 10, 2019

Meeting of the PPCR Sub-Committee
Washington DC
Wednesday, June 5, 2019

Agenda Item 4

RISK REPORT OF THE PPCR

PROPOSED DECISION

The PPCR Sub-Committee reviewed the document, PPCR/SC.24/4, *Risk Report of the PPCR*, and welcomes the progress that has been made in advancing the work of the PPCR.

The Sub-Committee requests the CIF Administrative Unit to continue to identify, assess, monitor and report the key risk exposures to the program, and to endeavor to enhance the CIF's Enterprise Risk Management (ERM) Framework, including through the following actions and initiatives:

- Assessing, monitoring, and reporting credit risk exposures for each Strategic Climate Fund (SCF);
and
- Assessing, monitoring, and reporting interest rate risk exposures for all CIF programs.

1 Risk assessments

1. For the Pilot Program for Climate Resilience (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.

1.1 Implementation risk¹

2. 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 the anticipated date of final disbursement but has disbursed less than 50 percent of approved funds.
3. The MDBs provide this information semi-annually, and the most recent information available is as of December 31, 2018 and is compared with projects flagged in the previous Risk Report (as of June 30, 2018). Although the amount of PPCR funds exposed to implementation risk decreased from USD 135 million to USD 86 million, and the number of projects flagged for this risk declined from eight to six, PPCR's overall risk implementation score remains **High**. The program's implementation risk score has been High for the last 4 semiannual reporting cycles. No private sector projects are flagged for implementation risk.
4. Table 1 illustrates that four projects representing USD 68 million of MDB-approved funding have been flagged under the first criterion (vs. five projects totaling USD 94 million as of June 30, 2018). While three of the five projects flagged in June are no longer flagged, having increased disbursements to above 20 percent of MDB-approved funding (*GMS Southern Economic Corridor Towns Development Project – Cambodia (ADB)*, *Enhancing Climate Resilience for West Coast Road Project – Samoa (IBRD)*, and *Cities and Climate Change – Mozambique (World Bank)*), two projects remain on the current 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

COUNTRY	PROJECT TITLE	MD B	PPCR Funding (USD million)	Cumulative Disb. FY19-S1	Disbursement ratio (as of Dec 31, 2019)	Effectiveness Date	Months Since effectiveness date
Haiti	Centre Artibonite Regional Development Project	IBRD	8.0	1.1	14%	10/6/2014	52
Bolivia	Climate Resilience - Integrated Basin Management Project	IBRD	45.5	7.5	16%	6/8/2015	43
Haiti	Strengthening Hydro-Meteorological Services Project	IBRD	5.0	0.8	17%	10/19/2015	39
Cambodia	Flood-resilient Infrastructure Development in Pursat and Kampong Chhnang Towns as part of the Integrated Urban Environmental Management in the Tonle Sap Basin Project	ADB	10.0	0.6	6%	1/5/2016	36

5. Centre Artibonite Regional Development Project – Haiti (World Bank)

- a. Reason(s) for delay: The last disbursement report erroneously indicated the following: “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.” This disbursement rate was based on disbursement of funds from all sources (i.e., not just PPCR funds).

Following project restructuring approved on June 27, 2018, project implementation has accelerated significantly as a result of simplified project design and streamlined implementation arrangements. The implementation progress rating has been upgraded to “Moderately Satisfactory.”

Rapidly disbursable activities prioritized immediately following project restructuring were financed by the IDA grant, which partly explains the lack of progress under the CIF grant. Activities financed by CIF were further delayed due to exogenous factors, including the departure of the Inter-ministerial Committee for Territorial Development PPCR focal point in the beginning of Q3 2018, civil unrest throughout the country (including violent protests from September to November 2018), and changes in the government with important delays at the level of ministries and signatures.

- b. Measures underway to accelerate implementation: Several activities financed by the CIF grant are about to achieve contract signature, and disbursements are expected to follow suit starting Q2 2019. Activities to start implementation in the following quarter include spot improvements on critical points along the Titanyen – Saut d’Eau road section. The grant will also continue financing actions to promote dialogue, knowledge management, and capacity building on climate change.
- c. Estimated timeframe within which project will have disbursed ≥ 20% of PPCR funds: Accelerating implementation of these activities should result in an increase in disbursement of USD 2.0 million from the CIF grant by June 30, 2019 and increase the disbursement ratio of the CIF grant from 13.8 to 38.8 percent (i.e., USD 3.1 million out of USD 8.0 million).

6. Climate Resilience Integrated Basin Management Project – Bolivia (World Bank)

- a. Reason(s) for delay: 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. Another source of delays was the lack of understanding between the project implementation unit and the National Service of Meteorology and Hydrology regarding the establishment of the National Climate and Water Information System and the Drought Monitoring System.
- b. Measures underway to accelerate implementation: Compliance with the action plan for the period October 2018 – March 2019 reached 80 percent. A disbursement plan for the period April – December 2019 has been agreed.

The project implementation unit and the Departmental River Basin Service are receiving support from the Ministry of Environment and Water to prepare a portfolio of sub-projects to ensure utilization of all resources from the grant. The National Fund for Productive and Social Investment, the Departmental River Basin Service, and the project implementation unit are engaged in the preparation of a portfolio of irrigation and flood protection sub-projects. The project implementation unit is preparing a set of consultancies to put in place the basis of the National Climate and Water Information System and the Drought Monitoring System.

- c. Estimated timeframe within which project will have disbursed \geq 20% of PPCR funds: The World Bank team estimates the project will no longer be flagged by Q1 FY20. To date, the project's disbursement rate is 18 percent (USD 8.1 million disbursed out of the USD 45.5 million of approved grants).

7. Strengthening Hydro-Meteorological Services Project – Haiti (World Bank)

- a. Reason(s) for delay: Implementation was delayed because the initial procurement process had to be re-launched for the Phase 1 (design) of the project in 2016 after it was discovered that the technical proposal and experience of the best scoring firm was overstated and subsequently overvalued. More recently, the government and consulting firm had a contractual dispute, which added another two-month delay.
- b. Measures underway to accelerate implementation: The task team leader has relocated to Haiti to provide closer implementation support to the Government of Haiti. This has already expedited implementation progress. With 15 months remaining until end of project, the risk of overrunning the end date is being carefully monitored, and the recent mid-term review was an opportunity to streamline the scope toward more focused Phase 2 delivery. During the mid-term review, the scope was reduced for the procurement of goods that have a long lead time for delivery. The procurement of goods was substituted with an additional contract for services that has a shorter lead time for implementation.

- c. Estimated timeframe within which project will have disbursed \geq 20% of PPCR funds: The completion of Phase 1 (design) will trigger a payment to the consultant for the deliverables received (May 2019). It is anticipated that three procurement packages will commence disbursement with initial advances and down payment for goods by July 2019 and that this project will no longer be flagged at that point.

8. Flood-resilient Infrastructure Development in Pursat and Kampong Chhnang Towns as part of the Integrated Urban Environmental Management in the Tonle Sap Basin Project – Cambodia (ADB)

- a. Reason(s) for delay: Detailed design in Pursat has been delayed due to changes in the town infrastructure carried out by the provincial government between the conclusion of the preparatory TA (PPTA) and the inception of the project implementation consultants (PIC). This necessitated a complete redesign of the proposed solution.

In addition, the Government of Cambodia has requested that the major project component in Kampong Chhnang be cancelled, as the government is unable to meet ADB safeguard requirements for this component. This has caused considerable delay, and alternative investments to meet the project objectives are currently being developed.

- b. Measures underway to accelerate implementation: The PIC is currently tasked with prioritizing detailed design of the replacement components for the cancelled sub-project. A project mid-term mission is planned for May 2019 to accelerate progress on completing the packages, following a review mission in March 2019.
- c. Estimated timeframe within which project will have disbursed \geq 20% of PPCR funds: The gestation period for the new project components is likely to take nine months for the completion of the new detailed design packages plus another six months for contract award. With the award of these two packages (Pursat Drainage and Kampong Chhnang flood protection replacement investment), the project will have USD 27million awarded out of a project total of USD 47 million.

- 9. Table 2 illustrates that three projects representing USD 22 million of MDB-approved funding have been flagged under the second criterion (vs. four projects totaling USD 42 million as of June 30, 2018). While two projects flagged as of June 30, 2018 remain at risk and are highlighted in orange, *Climate Resilience: Transforming Hydro-Meteorological Services – Mozambique (World Bank)* is no longer flagged as disbursements have increased to above 50 percent of approved funding, and *Climate Proofing of Agricultural Infrastructure and Business-focused Adaptation – Cambodia (ADB)* is no longer flagged because its financial closure date was extended.

Table 2: PPCR public sector projects within 15 months of closing with less than 50 percent of approved funds disbursed

COUNTRY	PROJECT TITLE	MDB	PPCR Funding (USD million)	Cumulative Disb. FY19-S1	Disbursement ratio (as of Dec 31, 2019)	Anticipated Final Disbursement Date	Months Before Anticipated Final Disbursement Date
Cambodia	Promoting Climate-Resilient Agriculture in Koh Kong and Monduliri Provinces as part of the Greater Mekong Subregion Biodiversity Conservation Corridors Project	ADB	7.4	1.5	20%	09/30/19	9
Cambodia	Enhancement of Flood and Drought Management in Pursat Province	ADB	9.8	4.6	47%	09/30/19	9
Cambodia	Flood-resilient Infrastructure Development in Pursat and Kampong Chhnang Towns as part of the Integrated Urban Environmental Management in the Tonle Sap Basin Project	ADB	5.0	-	0%	12/31/19	12

10. Promoting Climate-Resilient Agriculture in Koh Kong and Monduliri Provinces as part of the Greater Mekong Subregion Biodiversity Conservation Corridors Project – Cambodia (ADB)

- a. *Reason(s) for delay:* The civil work sub-projects 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. The ADB environment and safeguards team has provided intensive guidance to ensure every sub-project complies with requirements.

It was expected that all sub-projects will receive clearance on their environment and safeguard documents, and the bidding process will start in Q1 2019. At this point, two of the sub-projects (bioengineered sea barriers in Koh Kong province) have received clearance on their environment and safeguard documents and the bidding process has commenced. The third sub-project (climate resilient irrigation rehabilitation in Monduliri province) is expected to receive clearance in early Q2, after which bidding will also commence. There are an additional 26 small-scale climate-resilient subprojects for irrigated agriculture (eight rainwater harvesting ponds, 12 boreholes/water tank/solar pump, and six stream diversion/water tank/solar pumps) that have detailed designs prepared, and the community consultations and safeguard assessments are ongoing. Bidding is expected to be completed in June 2019 and construction of all sub-projects will be completed by November 2019, except for the climate-resilient irrigation rehabilitation sub-project in Monduliri province where sites access during the wet season may become difficult.

- b. *Measures underway to accelerate implementation:* The consultant team recruited to design and supervise the infrastructure sub-projects completed their contract in January 2019 and the consultants completed their contract in March 2019. The EAs have commenced recruiting a range of new individual consultants, including environmental and social safeguard specialists, a site supervision engineer, and project management advisers, to provide support during the construction period. The contract for the NGO that is providing the agricultural support services to all sub-projects is being extended to enable them to undertake the program of irrigated agricultural activities as the civil works are completed.

- c. Estimated timeframe within which project will have disbursed \geq 50% of PPCR funds: The EAs have applied for a 12-month extension of the grant period so the new completion date will be September 30, 2020.

11. Enhancement of Flood and Drought Management in Pursat Province – Cambodia (ADB):

Although this project has been flagged, disbursements have reached 47 percent of approved funds and are at or above ADB's expectations.

12. Flood-resilient Infrastructure Development in Pursat and Kampong Chhnang Towns as part of the Integrated Urban Environmental Management in the Tonle Sap Basin Project – Cambodia (ADB): This project was also flagged under the first criterion, and further details may be found in the Paragraph 8.

13. MDB cancellation guidelines and criteria

14. During the December 2017 CIF Trust Fund Committees and Sub-Committees meetings, members expressed interest in receiving information pertaining to MDBs' potential decisions to cancel projects. Some MDBs have provided the following links to their guidelines:

- [ADB – Project Administration Instructions: Suspension and Cancellation of Loans](#)
- [ADB – Externally Financed Grant Regulations Applicable to Grants Financed from a Trust Fund or Other External Sources and Administered by ADB](#)
- [AfDB – Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees](#)
- [IBRD - Trust Fund Handbook \(see Section 5.9\)](#)

2 Fraud and sexual exploitation and abuse

15. At the February 2019 meeting, the PPCR Sub-Committee requested that the MDBs provide to the CIF Administrative Unit information regarding fraud and sexual exploitation and abuse in PPCR projects implemented by them to the extent that such information is provided to their own MDB boards and subject to any necessary legal/confidentiality arrangements prior to disclosure.

16. The MDBs did not report any allegations or instances of fraud or sexual exploitation and abuse to the CIF Administrative Unit during the reporting period; however, MDBs issue the following annual reports on fraud and corruption highlighting statistics related to their anti-corruption efforts:

- [ADB – Office of Anti-Corruption and Integrity Annual Report](#)
- [AfDB – Office of Integrity and Anti-Corruption Annual Report](#)
- [EBRD – Integrity and Anti-Corruption Annual Report](#)
- [IDB – Office of Institutional Integrity Annual Report](#)
- [World Bank Group – Integrity Vice Presidency Annual Report](#)

3 Next steps

17. In its continuing work to implement the CIF's Enterprise Risk Management (ERM) Framework, the CIF Administrative Unit will endeavor to undertake the following actions and initiatives:

1. Assess, monitor, and report credit risk exposures for each Strategic Climate Fund (SCF) program, now that SCF programs are relying on reflows to cover administrative costs, by end of FY2019.
2. Assess, monitor, and report interest rate risk exposures for all CIF programs.