Risk Report for the Scaling Up Renewable Energy Program in Low Income Countries (SREP)

June 6, 2018

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Highlights

- At the intersessional meeting held on March 8, 2018, the SCF TFC agreed that reflows from SCF loans may be used to finance the potential shortfall of grant resources to cover administrative costs, and that the pause in approval of SCF funding be lifted.
- Implementation Risk for the SREP remains **Medium** although 4 projects representing USD 59 million of approved funding had been flagged for this risk as of December 31, 2018, subsequent information confirmed that 2 of these projects representing USD 39 million of approved funding had increased disbursements and are no longer flagged for this risk.
- Although the GBP appreciated against the USD by 4.6%, causing the unrealized decline in the value of SREP's unencashed promissory notes to decrease to USD 28 million from USD 40 million. The program's exposure to currency risk remains **High**.
- Although the shortfall in available resources declined to USD 66 million from USD 81 million the program's exposure to this risk remains **High**.

CLIMATE INVESTMENT FUNDS

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.
    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 of the CIF program/subprogram’s funds are to be disbursed), but has disbursed < 50% of approved funds.
- SREP’s risk score for implementation risk remains **Medium**.

Implementation Risk – Projects flagged under first criterion

Changes since June 30, 2017:

- Since December 31, 2017 the projects highlighted in green have increased disbursements >20%.
- 2 remaining projects are flagged vs. 1 as of June 30, 2017
- USD 20M vs. USD 15M as of June 30

Project Title	Country	MDB	MDB approved funding	Cumulative disbursement (as of Dec 2017)	% Disbursed	Effectiveness date	Months since Effectiveness
Rural Electrification Hybrid Systems	Mali	IBRD	14.9	1.8	12%	6/18/2014	43
Geothermal Sector Development Project (GSDP)	Ethiopia	IBRD	24.5	4.7	19%	8/5/2014	41
Biogas Extended Program	Nepal	IBRD	7.9	0.6	7%	9/15/2014	40
Accelerating Sustainable Private Investments in Renewable Energy (ASPIRE) Program	Maldives	IBRD	11.7	0.7	6%	10/1/2014	40

CIF CLIMATE INVESTMENT FUNDS

Currency Risk

- Currency Risk exposure remains **High**.
- Between September 30, 2017 and March 31, 2018, the GBP appreciated 4.6% against the USD.
- Unrealized decline in the value of the outstanding promissory notes decreased to USD 28 million from USD 40 million

Currency Risk Exposure (Millions) as of March 31, 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
SREP	£268.00	£177.30	($15.3)	($28.5)	Very Likely	Moderate	**High**

Resource Availability Risk

- Resource availability risk remains **High**.
- Between September 30, 2017 and March 31, 2018, available resources increased from a deficit of USD 81 million to a deficit of USD 66 million.

Available Resources as of March 31, 2018				
Program/ Subprogram	**Available Resources for Projects/Programs ($Million)***	**Risk Likelihood**	**Risk Severity**	**Risk Score**
SREP (Grant)	($51.3)	Possible	Severe	**High**
SREP (Capital)	($14.8)			

*Available Resources for Projects/Programs represesent Unrestricted Fund Balance for Project/Program Commitments less Total Anticipated Commitments, as reflected in Annex A.

Resource Availability Risk

The narrowing of the available resources gap is primarily attributable to the following.

I. Appreciation of the GBP increased the value of the unencashed promissory notes by USD 12 million.

II. The Kenya Menengai Geothermal (USD 15 million) and Uganda (USD 32 million) projects were removed from the active (sealed and reserve) pipeline.

III. These two factors offset the impact of the addition of the recently endorsed Lesotho IP, with projects equivalent to USD 17 million now added to the sealed pipeline, as well as the inclusion of a reserve for covering net administrative expenses up until 2028.

3. Next Steps

1. Formally propose risk tolerance levels for SC approval
2. Begin reporting Credit Risk exposure
3. Investigate reporting aggregate private sector exposure to Implementation Risk
4. Investigate reporting Interest Rate Risk exposure incurred via private sector lending
5. Implement information sharing protocols and processes for Fraud Risk
6. Collaborate with the MDBs to report on possible or actual incidents of sexual exploitation or abuse.

Questions