CONCEPT NOTE

ON A PROPOSED GRANT/NGI FROM THE GLOBAL ENVIRONMENT FACILITY TRUST FUND

IN THE AMOUNT OF US$16,000,000

TO

INTERNATIONAL FINANCE CORPORATION (IFC)

FOR

Green Global Supply Chain Decarbonization Platform

Revised - November 30, 2023

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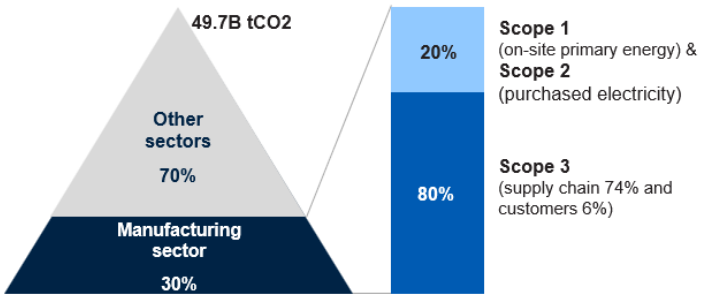
GENERAL PROJECT INFORMATION

Project Summary

Scope 3 emissions, or the indirect greenhouse gas emissions that occur across an entire value chain, from raw material extraction to distribution, are among the most extensive and challenging to mitigate. **Significantly reducing these emissions is critical to achieving sustainability goals** but to date there have been no compelling solutions capable of aggregating sustainability improvements across a diverse and fragmented supply chain.

Almost a third of the world's emissions come from processes associated with manufacturing and over 80 percent of those emissions are attribute to supply chain activities. Pressure is growing on many companies to make more significant inroads into the carbon emissions from their supply chains. For global corporates this has presented a difficult challenge, as the supply chain activities are associated with the production of their goods and therefore part of their global environmental footprint, but the companies rarely direct own or control the production methods by which the emissions are produced.



Global GHG emissions in 2019, and contribution from Fortune 500 companies

This challenge has made many multinationals, particularly those in the Manufacturing sector, keen to find innovative and actionable solutions.

In answer to this challenge, **IFC proposes to collaborate with GEF and a global, multinational Brand Client to pilot the first Supply Chain Decarbonization Platform to provide long-term, green-linked loans to manufacturers, suppliers or third parties[1] across emerging markets**. This

[1] Third parties may include such as aggregators, service providers or funds who can bundle multiple suppliers for the Client.

initial US$163+ million platform, piloted first in the Textile and Apparel sector where Scope 3 emissions exceeds 95% of the total emissions, will aim to demonstrate a new financing structure capable of catalyzing and aggregating decarbonization investments. Simultaneously, leveraging the aggregated access provided by the financing structure, IFC/GEF will use this opportunity to systematically move participating supplier factories to safer chemical alternatives in production, in line with the GEF-supported conventions and lay the groundwork for safer chemical use to be a necessary eligibility condition of working with Global Brands. This Chemicals & Waste engagement, which will implemented in parallel to the financing structure, will be additional to the expected mercury savings expected to be generated by operational decarbonization upgrades that will be implemented as part of Component 1.

Due to the perceived risk associated with the newness of this structure, lack of track record of performance of prospective borrowers under this approach, and their overall lack of comfort with providing a higher level of contribution to suppliers who also serve other brands, **GEF resources are critical to derisk the Platform and ensure its success**. GEF resources will be complemented by a **unique and innovative feature to this platform, a 15 percent first loss guarantee from the Global Brand's own balance sheet** to help mitigate the potential risk of the subprojects that comprise the facility.

Global environmental benefits (GEBs) from this financing platform, together with a parallel and complementary Advisory engagement that will target reductions of hazardous waste and harmful chemicals, are expected to be substantial both from carbon savings and direct reductions of mercury emissions, as well from impacts resulting from shifting supplier factories towards the use of preferred, safer chemicals and cleaner waste disposal practices.

Indicative Project Overview IFC proposes to collaborate with GEF to create the first-of-its-kind **Global Supply Chain Decarbonization Platform** to tackle the challenge of Scope 3 emissions by creating a new mechanism to finance green solutions for suppliers in global value chains, at scale. IFC proposes to pilot this new structure first in the Textiles Apparel and Footwear, catalyzed by a US$75 million IFC own-account investment, and by leveraging IFC's relationships and decades-long sector track record to secure financial participation by some of the largest global brands and multinationals.

PROJECT OUTLINE

Project Rationale

Global GHG emissions totaled 49.7 billion tCO_2e in 2019. Thirty percent of these emissions came from the manufacturing sector, but only 20 percent of the emissions attributed to manufacturing came directly from onsite emissions related to primary energy use or purchased electricity**.**

In fact, 80 percent of the emissions from manufacturing are attributed "Scope 3" emissions, also referred to as "value chain emissions" or "supply chain emissions". Even as companies have become more proficient at reducing or eliminating direct onsite emissions, or emissions attributable to purchased energy (known as Scope 1 and Scope 2, respectively), and have set increasingly ambitious goals to decarbonization, these indirect emissions resulting from activities across their global supply chains have continued to be challenging to systematically address. As Scope 3 emissions represent the majority of many leading organizations total greenhouse gas (GHG) emissions, it has become increasingly imperative to find a scalable, aggregable model capable of addressing the many market barriers preventing the decarbonization of global supply chains.[2]

Supply chain decarbonization also provides a critical pathway to the reduction of other emissions and associated hazardous chemicals associated with manufacturing and production. This is especially true for manufacturing activities in emerging markets where coal remains a substantial contributor to baseline electric power generation. **Any reductions in the use of electricity produced from coal has substantial impact through the corresponding reductions in other hazardous byproducts, particularly mercury.**

Despite international pressure and the market influence of leading corporates who have adopted ambitious targets specifically aimed at reducing Scope 3 emissions, many suppliers continue to face multiple barriers to decarbonize.

Challenges / Market Barriers

Although textiles is one of the highest emitting sectors, challenges to effectively reduce Scope 3 emissions is a systematic problem across supply chains, regardless of the end-product that is sold. Over 50% of the total emissions from Scope 3 sources result from only eight supply chains, including:

[2] Scope 3 emissions are defined by the Environmental Protection Agency (EPA) as, "Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain.

Food, Construction, Fashion, Chemicals & Plastics and Auto. A significant share of this market is indirectly controlled by a few global, multinational corporations who buy from these suppliers.

Lack of attractive access to finance for a geographically diversified, fragmented set of suppliers continues to be a major barrier to progress. In addition to information and capacity barriers related to adoption of low carbon alternatives, many suppliers are unable to access domestic finance credit or other sources of capital at attractive rates to finance the higher cost low carbon investment opportunities. To date, there have not been any compelling solutions offered at scale to overcome issues of access to finance.

Lack of awareness of Suppliers about the efficiency and cost effectiveness of industrial decarbonization activities. Supplier factories generally have weaker capacity to design, finance and implement GHG reduction measures even when the factories are aware that energy efficiency, renewables and other decarbonization activities would be beneficial. **Although many factories have made some operational improvements, primarily to save on energy costs, many suppliers are still unaware of how cost effective these improvements are.** Even if financing were available, in some cases ongoing advisory efforts, both with the Global brands to identify appropriate measures for its suppliers, as well as direct engagements with the factories, is necessary in order to help create solutions to "green" their manufacturing processes.

Lack of direct pressure from Global Brands on Supplier Factories to decarbonize. Scope 3 emissions are among the most challenging to address as they result from the aggregated operations of hundreds of thousands of companies. Many of these companies are smaller SMEs, including manufacturers and other secondary suppliers, that work with the primary tier 1 suppliers and are fragmented across multiple emerging markets. Historically, Brands have been reluctant to directly finance factory upgrades, retrofits or other operational improvements, due to a variety of issues including operational and finance risk and governance issues, among others.

Lack of direct pressure from Global Brands on Supplier Factories to incorporate safer Chemicals and Waste Practices. Many factories are not aware of safer chemical alternatives and end-of-life waste management practices, or are unaware that many safer, green substitutions can be made at comparable costs. At the same time, Brands have not yet mainstreamed the concept of requiring safer chemical use (or prohibited use of certain chemicals) in production. Without knowledge, capacity or a compelling reason to change, factories continue to use the same hazardous **chemicals, creating ever increasing hazards to human health and the environment.**

Project Description

Theory of Change – Decarbonization Platform

In accordance with GEF-8 Policy, the Project's Theory of Change (ToC) is summarized below. The market barriers noted in the ToC are outlined in further detail below. The detailed project components are included in the NGI (only) section, after the investment structuring details are laid out.

Table. 1 Decarbonization Platform Theory of Change

Problem / Issues	Related Component Activities	Outputs	Intermediate Outcomes	Indicators
Lack of **attractive sources of financing** for supplier factories, including SMEs to upgrade their activities and reduce emissions in their manufacturing processes	**Component 1: Create First-of-its-Kind Global Supply Chain Decarbonization Financing Facility for selected Textile and Apparel Factories in partnership with Global Brand to encourage supplier factory participation**	Mobilize US$ 75M in financing from IFC for new financial structure aimed at offering competitive financing packages for decarbonization activities of Textile & Apparel Supplier factories, who will be encouraged to participate by their key buyer, the Global Brand	Supplier factories implement decarbonization upgrades, including energy efficiency improvements and addition of renewable energy	Carbon emissions attributed to factories that have used IFC/GEF Financing Platform begin to drop.
Lack of awareness of Suppliers about the **efficiency and cost effectiveness** of industrial decarbonization activities		Create and offer new financial terms for decarbonization loans that would not be possible in the absence of this mechanism	Performance metrics from factories that have used decarbonization financing are shared throughout industry channels, demonstrating the value of this type of platform	Additional platforms are set up to replicate this structure in textiles and apparel, either with a single-brand or multiple brands leading as either a mandatory requirement for working with Brand or as a way to gain preferential status as a greener factory
Lack of direct requirements and quantitative near-term obligations from Global Brands to their Supplier Factories on **decarbonization and energy efficiency standards**		Set up new vehicle that will allow Brand(s) to support/encourage their supplier factories to implement decarbonization initiatives, initially as part of voluntary initiatives	Additional Brands begin to experiment with this type of financing platform to address their own supply chain initiatives which can be implemented in advance of mandatory supply chain requirements	
Lack of sufficient direct requirements and quantitative obligations from Global Brands on Supplier Factories **to incorporate safer Chemicals and Waste Practices**	**Component 2: Mitigate the use of Hazardous Chemicals in supplier factories and offset future buildup of hazardous chemicals in the environment**	Supplier factories accept and implement adherence to clean chemicals initiatives with reference to Minamata Convention and Montreal Protocol	Clean chemical and waste disposal practices become accepted industry standard practice across supplier factories working with global brands	Safer, cleaner chemical use and safe, clean waste disposal with reference to Minamata Convention and Montreal Protocol becomes an embedded industry requirement for all factories working to supply Global Brands, potentially linked to preferential pricing for factories that go beyond baseline with these practices.
Lack of awareness / knowledge about Safer Chemical Alternatives and what options are available for cleaner production in Textile and Apparel Factories		Supplier factories begin to incorporate safer chemical alternatives	Supplier factories embed adherence to these types of clean chemicals initiatives into their longer term planning and procurement cycle	

Lack of direct pressure from Global Brands to incorporate **Gender Responsive initiatives** for their factories	**Component 3: Monitoring & Evaluation (M&E); Knowledge Management & Learning (KM/L)**	Coordination with IFC gender programs, including Better Work and GRIP, in Textiles to bring Supplier Factories under C1 and C2 into direct gender responsiveness work to benefit women as employees and managers.	Supplier factories agree to work with IFC on gender-equality specific programming, including capacity building and training	**Supplier factories incorporative gender responsive measures into their operational model**, including providing safer, healthier work environments and training women for management roles in Textile and Apparel factories
		Raise awareness of innovative new financing platform among selected industry channels	Additional brands/client attend industry forums discussing lessons learned from IFC/GEF Decarbonization Platform	Additional financing structures between Brands and supplier factories are replicated nationally or regionally
Lack of awareness in the wider Textile and Apparel industry about alternative financing structure that allow Brands to directly tackle decarbonization in their supply chains (note that CW KML work will be tracked under C2)		IFC/GEF hold Knowledge events, including industry presentations detailing experience with the Platform (see p. 33 for initial KL/M plan) M&E activities track and account for carbon emission reduction and improved performance at participating factories	IFC shares aggregated operational information, including financial performance of these types of loans with other global brands to encourage them to set up similar financing structures	Industry knowledge of the benefits of decarbonization grows, increasing requests for financing, additional financing structures replicated based on lessons learned; Globally brands highlight reductions in Scope 3 emissions resulting from Platform activities

Why Textiles

IFC has proposed to pilot the Platform first in Textile and Apparel due to several factors, including the exceptionally high level of Scope 3 emissions present in the sector. In addition:

Figure 1. A critical supply chain for economic growth and sustainability

>70%

Global Exports and Trade

Textiles and apparel manufacturing is a key source of exports and GDP for most developing countries. The share of textiles and apparel exports in countries such as Cambodia, Bangladesh and Haiti is as high as 74%, 84% and 90%, respectively.

80%

Employment and Gender

Apparel manufacturing provides direct formal employment to over 60 million workers along its value chain. Over 80% of apparel workers in key Asian markets such as Cambodia, Indonesia and Vietnam are female.

8%

Opportunities for Sustainable Production

It accounts for approximately 8% of the world's GHG emissions and consumes 79 trillion liters of water per year. This provides an opportunity for rethinking energy and water, digital-based process improvements and material innovations that are less energy intensive.

$2.5tn

Demand and Market Size

Global consumer expenditure on clothing and footwear products in 2019 was US$2.5 trillion and is expected to grow to US$4.4 trillion by 2030, with most growth coming from emerging and developing economies.

Skills Development

Textiles and apparel manufacturing provides entry into formal employment in developing countries, allowing workers to develop and upgrade skills, increasing workers' social mobility and advancing the sector in general.

Adoption of standards

It leads to adoption of best practices and global standards – improving job quality by enforcing environmental, labor, health and safety standards.

IFC

Presence of strong committed Sponsor willing to lead an engagement with its suppliers: IFC has identified a potential anchor sponsor (global Brand) that has made strong corporate commitments and matched targets with on-the-ground action and deployment of their own internal resources. The client has already signed a multi-year, multi-million-dollar upstream advisory agreement with IFC to further support direct engagements with its suppliers in developing countries. This engagement is under implementation and has resulted in the development of an early-stage pipeline of potential decarbonization investment opportunities.

Textiles is a resilient industry with strong long-term growth potential: Apparel and footwear was among the industries significantly impacted by the COVID crisis. The industry experienced high bounce-back growth from 2021 through mid-2022, after which inflation and depressed customer sentiment have reversed this trend. Global sales of apparel and footwear via e-commerce will continue to increase as companies invest in their digital transformation. To avoid interruptions in their global supply chains, many leading brands have consolidated their sourcing to focus on the best performing supply partners. Customers prefer long-term engagements with suppliers that are committed to digitization, sustainability, and the fight against climate change.

Sector is under increased global brand focus on sustainability in the textile and apparel sector: An increasing number of global brands have committed to reduce the GHG emissions of their supply chains (i.e., Scope 3 emissions) as part of their overall corporate sustainability commitments- through SBTI or other programs. IFC's engagement with corporate sustainability leaders, which may include multiple

brands under this initiative will demonstrate a replicable solution to addressing the greening supply chain challenges.

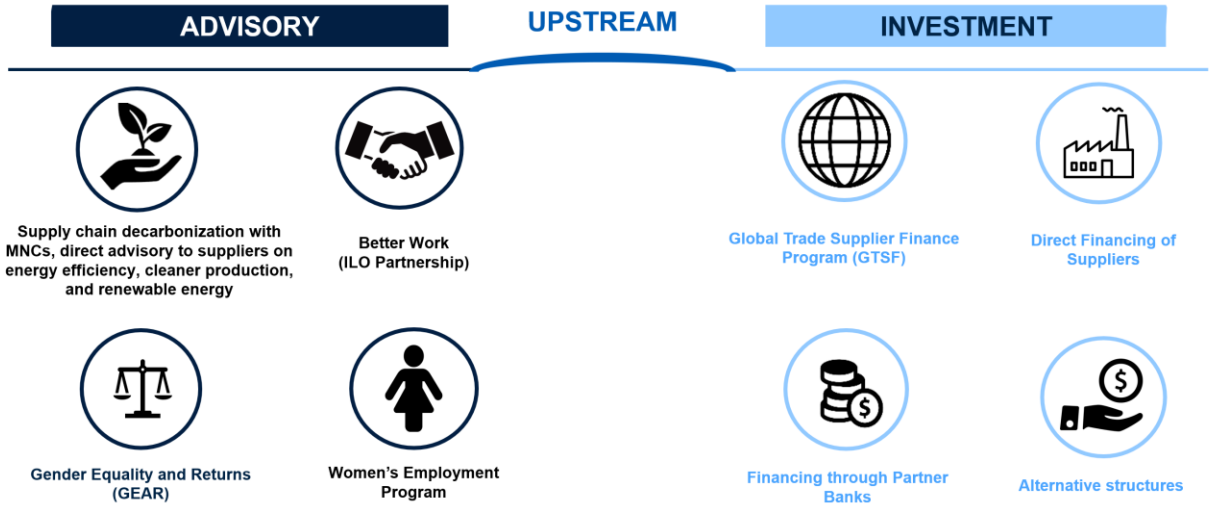
High potential for robust environmental impact: Each proposed investment will have a minimum climate-related component of at least 60%, resulting in direct reduction of GHG emissions from suppliers achieved through the implementation of energy efficiency, renewable energy and cleaner production measures at the supplier facilities. Supplier level engagements will also evaluate opportunities to go beyond decarbonization to address issues with reduction of hazardous chemicals, waste reduction and pollution prevention, details of which will be presented at CEO Endorsement stage. This engagement will also specifically target the highest emission activities in the supply chain, including textile production (dyeing, finishing) and assembly.

Large universe of suppliers with potential to implement cost-effective projects provides a scalable model: The first potential client has more than 500 tier 1 and 2 supplier facilities operating in emerging markets who could implement renewable energy or energy efficiency/cleaner production projects with attractive payback periods.

Strong future pipeline for scale: IFC also has a strong history of engagement and relationship with global brands in this sector and a robust pipeline for immediate deployment of GEF financing. Once demonstrated, IFC believes this approach could be scaled across additional brands, as well as additional supply chain verticals in other high emitting sectors.

Solutions for the reduction of chemicals and waste in the textile sector is urgent: The textile sector is one of the world's major users of persistent organic pollutants (POPs) and per- and polyfluoroalkyl substances (PFAS), a family of approximately 12,000 synthetic chemicals which do not break down, but instead accumulate in the environment, threatening human and ecosystem health. Wet processing factories, where materials are turned into fabrics through bleaching, printing, dyeing, finishing, and laundering typically use 0.58 kilograms of chemical inputs for every 1 kilogram of fabric produced. These compounds leak into the environment at all phases of the textile lifecycle, from production to use, disposal, and recycling.

Figure 2. Current IFC engagement in Textiles & Apparel



Why this project approach was selected over other potential options

To date there has been very little direct lending available to suppliers at sufficiently attractive terms and conditions to spur substantial investment. This is due to several factors, but primarily due to higher perceived risk of lending for climate projects in this sector, and the fact that has been insufficient or no risk mitigation available to help address this risk. Alternative finance dedicated to decarbonization initiatives would have had to be offered at much higher costs and less attractive terms without risk mitigation, which would be insufficient to catalyze widespread action by participating suppliers, despite brand support and global target setting. The option of direct concessional GEF finance for individual projects was considered, but rejected as having insufficient leverage potential versus that which could be achieved through this mechanism. Risk mitigation from other parties (such as USAID under the DCA program) has been insufficient on its own to significantly improve terms and conditions for broader sector and in most cases has been far too limited (including both financially and geographically, etc) to make a meaningful difference across large, diverse supply chains. Without the GEF intervention, it is unlikely that any of this potential supplier financing would happen.

Resilience of the Model to Change

The Platform has been designed in a manner that is integrated with IFC lending practices and procedures, which are sufficiently robust to be able to continue to meet the needs of the market under a variety of future operating conditions. In addition, the loans provided will improving and increasing supplier resilience to future changes, by supporting investments that will reduce their operating costs and energy/material inputs, improving their ability to withstand future changes.

Coordination & Cooperation with Ongoing Initiatives and Projects

Due to its oversize importance for developing countries' economic growth and job creation potential, as well as its high environmental footprint and importance for gender issues, the Textile, Apparel & Footwear sector is of high importance to IFC.

IFC's Global Trade Supplier Finance Program (GTSF) provides post shipment supplier financing to EM suppliers that sell products to several leading global brands (e.g. Nike, Puma, Levi's, Ralph Lauren, PVH and others) on open account terms. GTSF purchases and discounts invoices accepted for payment by pre-approved buyers. By leveraging commercial strength of brands, GTSF enables access to competitive short term financing solutions for suppliers, many located in IDA17 countries. IFC GTSF product can further improve the sustainability of supply chains, by offering sustainability linked pricing that connects receivables discount rates to the actual environmental and social (E&S) performance of suppliers themselves- providing a positive incentive for continued improved supplier performance. GTSF funding can be complimented by IFC advisory that works directly with suppliers, helping them to reduce emissions, achieve greater energy and resource efficiency, improve gender equality, address social concerns, etc.

IFC has successfully implemented multiple country-level and/or brand-specific Advisory engagements to identify and help implement climate friendly initiatives in their supply chain and has provided climate and sustainability linked shirt term financing packages direct to several companies selling into global textile value chains. As an increasing number of global brands have now committed to reduce the GHG emissions of their supply chains (i.e., Scope 3 emissions) as part of their overall corporate sustainability commitments, this offer has high relevance as brands begin to appreciate the interventions needed to

meet 2030 goals and even more stringent 2050 net zero targets and for suppliers seeking long term finance for deeper decarbonization investments at attractive terms.

This new supply chain program will benefit from and will complement several additional programs underway specifically focused on addressing sustainability challenges in the textile and apparel sector specifically the **UNFCCC Fashion Industry Charter for Climate Action** (of which IFC is a signatory), **The Fashion Pact, the Global Fashion Summit**, the new FEM programs of the **Sustainable Apparel Coalition**, and complementary efforts by other bilateral and multilateral partners such as GTZ Climate and Energy, Just Transition efforts to support increased use of solar in garment sector in Bangladesh. This shall include benefits from the awareness raising and capacity building efforts such as dedicated workshops, training programs, participation with industry partners such as BGMEA in Bangladesh and VITAS in Vietnam to engage and mobilize members. These Knowledge management efforts are designed to overcome knowledge and imperfect information barriers at the supplier level to help generate additional pipeline and will dedicate specific resources to create new knowledge products to share lessons from early experience to support replication and scale up. IFC's engagement with sustainability leaders will demonstrate a replicable solution to addressing the greening supply chain challenges faced by many other global brands seeking to move the supplier base along a more sustainable low carbon path.

The Project will also coordinate with UNEP Bangladesh, Indonesia, Pakistan, and Viet Nam Project "Reducing uses and releases of chemicals of concern in the textiles sector" which provides technical support and tools for small and medium-sized enterprises (SMEs) and manufacturers to improve their knowledge and management of hazardous chemicals, and will forge linkages with the ongoing efforts of Zero Discharge of Hazardous Chemicals (ZDHC) program through regular consultations, coordination of country level outreach and supplier mobilization work, and through potential joint capacity building efforts.

How will the Project will build on ongoing/previous investments, lessons and experiences?

IFC has been working in the textile and apparel space for more than 10 years and has built robust working relationships at every level, from supplier factories and brands to domestic banks and international industrial groups. The concept of the Decarbonization Platform builds upon the accumulated experience of IFC engagement under the multi-stakeholder Partnership for Cleaner Textiles (PACT) program in Bangladesh, Vietnam, Pakistan and others, our GTSF programs to facilitate working capital for supplier factories which will celebrate its 10 year anniversary in 2024, our work with local banks, and our experience in direct lending to suppliers utilizing IFC own account funds (A loan), among other sources. It also draws from the several decades of experience of the World Bank Group in supporting mechanisms to increase lending for energy efficiency[3] which highlighted the importance of project development functions paired with financing provision.

IFC has been able to create change on the ground by linking the provision of attractive financing terms with supplier capacity-building and pipeline generation efforts, in order to catalyze and accelerate large-

[3] https://elibrary.worldbank.org/doi/epdf/10.1596/978-0-8213-7304-0. Financing Energy Efficiency Lessons from Brazil, China, India, and Beyond. World Bank Press 2008. Robert P. Taylor, Chandrasekar Govindarajalu, Jeremy Levin, Anke S. Meyer and William A. Ward

scale investments in the sector. This program is a natural extension of those relationships. By linking the Platform's financing with a leading global brand's global commitments, it also increases the visibility and impact on Supplier decision making, as the Brand (the Supplier's key customer) can provide a strong signal that their participation in decarbonization initiatives will be increasingly required to participate in this value chain in the future. IFC expects to leverage all of these relationships in order to make the Platform a success.

Core Indicators

The project is expected to provide significant Global Environmental Benefits, in line with GEF-8 Core Indicators, of greenhouse gas emissions (GHG) and reductions in Chemicals of Global Concern. Assumptions.

IFC would note that water savings that result from the reduction of energy use, will be collected as part of the indicators for this project, but direct water efficiency projects and wastewater treatment will not be covered by the GEF NGI funding, as it is not part of GEF's core indicators.

Preliminary analysis from IFC indicates that among a diversified portfolio of textile and fashion suppliers in IDA and non-IDA countries, a mixture of energy upgrades would be estimated to generate an aggregated carbon savings of approximately 3 million tCO_2e from the initial investment period and a direct reduction of 5,029 grams of avoided mercury annually.

The Platform is also expected to have significant indirect impacts in addition to carbon and chemical savings. These co-benefits may include but would not be limited to: (i) preservation of jobs; (ii) preservation of businesses negatively impacted by the pandemic; (iii) significant, measurable water savings, with a corresponding impact on preservation and protection of biodiversity and wetland habitats; (iv) the reduction in the use of harmful chemicals; and (v) the reduction of waste and materials use.

Benefits from strengthening the ecosystem and preserving biodiversity (primarily through a reduction in pollution/chemical effluents and waste), would be discussed together with the GEF Secretariat during the project design prior to CEO endorsement. Based on the outcome of these discussions, IFC would incorporate other environmental metrics accordingly. Environmental and financial impacts will be recorded through reporting agreements and reported to GEF in line with IFC's standard reporting obligations. A summary of environmental benefits from IFC's indicative model are included in the Table below.

Table 2: Project Alignment with GEF-8 - Expected Global Environmental Benefits

Pollutant	Result	Unit
CI 6. Greenhouse Gas Emissions Mitigated	3,000,000	Metric tonnes of CO_2e
CI 9. Chemicals of global concern and their waste reduced	5,029	Grams, Mercury, annually

Global Environmental Benefits – Assumptions

CI 6 – GHG Emissions. Core indicators related to GHG emissions, energy and water savings would be calculated using upfront bottom-up engineering calculations for each supported investment, considering the specific technologies, processes, and measures being implemented and the baseline situation of the supplier implementing the decarbonization solutions.

Calculations and benchmarks from IFC's past investments/advisory engagement in decarbonization and resource efficiency measures across a similar supplier base will be leveraged as required. IFC's calculations have been based on assumptions for the initial facility will cover approximately 30 Suppliers, each receiving loans of US$5 million. While actual loans per supplier will differ from these presented examples, the overall order of magnitude of expected impacts is reasonable given observed results from IFC experience.

- Each supplier assumed to use approximately US$800K for onsite renewable energy (RE) investments (~1MW installation), and
- Each supplier using the remaining US$4.2 million for energy efficiency related interventions, including equipment replacement, cleaner production, green buildings etc)
- EE investments are estimated to have average payback periods of up to 4 years.
- Annual GHG emissions savings from RE/supplier factory would average 1,000 tCO_2 based on IFC assumptions on country, and direct and electricity fuel mix
- Annual GHG emissions savings for EE/supplier is calculated at 5,500 tCO_2 utilizing above assumptions
- Annual Mercury emissions reduced (feeding into CI 9 Chemicals of global concern and their waste reduced)
- The expected lifetime GHG savings from RE projects is assumed to be 20 years; EE projects are assumed to be 16 years as focus is on larger equipment replacement measures rather than quick win no regrets options.

CI 9. Chemicals of Global Concern. For core indicators related to Chemicals and Waste, intial calculations are based on mecury emission reductions related to the phased out/replacement of coal-fired power. In most countries, coal fired power plants remain the largest unregulated source of mercury emissions, accounting for up to have of all national mercury emissions. In many existing supplier factories, baseload power remains coal dominated. Energy efficiency retrofits and the move to renewable sources of energy will offset these emissions. The targeted techincal assistance platform will have additional metrics of chemical savings and avoidance of hazardous waste that will be tracked seperately.

NGI (Only): Justification of Financial Structure

GEF Amount:	US$15 million from GEF **(US$13.7million for Investments)**[4]
Other investors:	US$75 million (IFC), US$11.25-US$15 million global brand contribution[5]
Total Financing:	Approx. US$163.7 million, depending on the final level of co-financing from loan recipients.
Use of Funds:	**Funds will be lent either directly or through third party aggregators/providers/funds to enable decarbonization investments by suppliers to global brands in the textile apparel and footwear space.** Blended Concessional Finance from GEF will support the acceleration of decarbonization of supply chains among suppliers, manufacturers, including small-medium-sized enterprises (SMEs), for resource efficient investments that will result in energy and/or water savings, with potential additional benefits to be realized from the reductions of hazardous chemicals, waste and materials. All blended finance transactions will be in-line with the DFI Enhanced Principles for Blended Concessional Finance and processed per IFC's standard investment services and blended finance governance.
Duration:	**20 years;** with a rolling active investment period based on expected potential financing tenor, that would allow IFC to recycle funds to repurpose for additional engagements to widen the existing project or potentially expand the corporate and supply chain decarbonization offering to other manufacturing or service sectors within GEF-8 program directions. Further details on the initial pilot investment will be presented at CEO Endorsement stage.
Sectors/activities:	Manufacturing, with an emphasis on investments and models that can support SMEs in the textile apparel and footwear sector. Specific priority targets for investment in the textile chain will be (i) textile production (dyeing, finishing) and (ii) assembly which together account for more than 50% of Brand supply chain (Category 1) Scope 3 emissions.
Geographies:	Global with priority in Bangladesh, Pakistan, Sri Lanka, India, Vietnam, Cambodia, and secondarily for suppliers in other textile hubs, including but not limited to Egypt, Turkey, Mexico, Kenya and Ethiopia.
Instruments:	Subordinated Debt[6]
Reflows:	Any funding that is cancelled, unutilized or reflowed during the active investment period may be redeployed by the Facility using the same agreed eligibility and instrumentation outlined above and in accordance with Financial Procedures Agreement.
Waterfall:	All cash inflows from subprojects for will first flow to IFC for its principal and interest, and then second to GEF for its principal and interest. Upon a credit event, all cash flow will go first to making IFC whole on its principal and interest

[4] A total amount of US$15 million has been requested; the project structure anticipates US$13.7 million will be dedicated to investments, with the balance dedicated to standard administrative agency fees.

[5] Please note that the US$11.25-15 million contribution from the Brand client will be in the form of first-loss-guarantee and does not, by IFC methodology, count as part of the project's liquidity. The total Platform size of $163 million is calculated as follows = IFC + Supplier Financing + GEF contribution

[6] Given project/market conditions and dynamics of private sector, the de-risking instrument may be updated before CEO endorsement, but regardless of final instrument the overarching principle will be to share risk with the Brand for around 30% of subproject exposure.

payments and then the remaining recoveries will be applied pari-passu to GEF's outstanding principal and interest and the Brand's guarantee fee and capital. The specific mechanics are currently under negotiation.

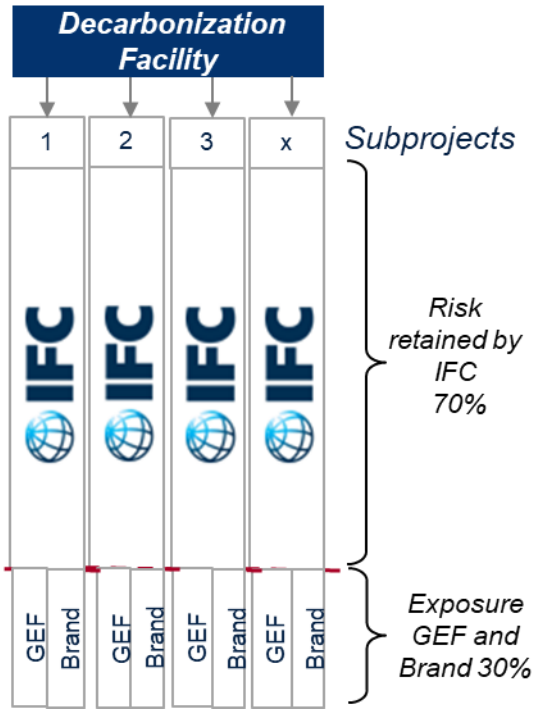
Proposed Investment Structure

IFC proposes a pilot US$88.7 million IFC financing facility, through which IFC will provide long term loans to manufacturers, suppliers or third parties (such as aggregators, service providers or funds who can bundle multiple suppliers for the global multi-national brand[7] ("the Client")) in emerging markets to make climate-related investments. Up to US$75 million is proposed to come from IFC as senior loans and up to US$13.7 from GEF as subordinated loans that would be on-lent to eligible subprojects. **Unique to this facility is the creation of a platform, the Brand is also expected to provide a 15% first loss guarantee ("FLG") in each sub-project of the facility from its own balance sheet to IFC to help share in risk mitigation.** Due to the perceived risk associated with the newness of this structure, lack of track record of performance of prospective borrowers under this approach, and their overall lack of comfort with providing a higher level of contribution to suppliers who also serve other brands, it was determined that additional GEF resources will be critical and needed to provide an additional layer of risk mitigation as subordinated lending (estimated at this stage to be 10-20%). Subordinated loans have been deemed the ideal product for GEF support as it provides liquidity and de-risking, both of which are needed. With this potential combined FLG and subordinated lending, IFC will then be able to offer terms and conditions to the borrowing entities that would not be possible in the absence of this risk-sharing structure. These terms may include more attractive loan and security terms, which are anticipated to catalyze additional sustainability investments. In the absence of GEF, the risk mitigation impact of the brand's support alone is likely to be insufficient to overcome the barriers preventing larger scale uptake of decarbonization solutions by the suppliers. A potential proposed structure as an illustrative example can be seen in **Figure 3** below.

Figure 3. Investment Structure Option for an IFC/GEF Decarbonization Platform

[7] IFC is in advanced negotiations with several global multinationals for this concept, but as this funding is not yet secure the names of the potential clients are not included.

Figure 4. Proposed Derisking Structure of GEF Funds



Investment Structure Details

- Subordinated lending from GEF through the Trust Fund will provide de-risking support to IFC and potentially other investors. It is expected to supplement an additional guarantee provided by the sponsor Brand.
- GEF subordinated lending is expected to be 10-20 percent of each subproject in the US$88.7 million lending facility under the supply chain decarbonization platform. The sizing of each subproject investment will be driven by the risk parameters of the underlying projects.
- Unique to this structure, the Client (Brand or Brands) is expected to provide additional de-risking support equal to approximately 15 percent.
- The total de-risking support is sized to provide adequate credit enhancement for IFC to lower its expected loss calculation in IFC's loan pricing model. In turn, this lower expected loss would lower IFC's pricing to the suppliers and make it feasible to offer medium-term lending of up to 8 years, which is often not available domestically at competitive rates.
- The Program seeks to enable suppliers that are willing to commit to greening to access longer tenor capital for climate friendly investments which will verified by IFC to ensure that they meet definition of climate investments and audited as appropriate. Additional criteria may be discussed to reduce the use of chemicals and hazardous waste.

<u>Indicative Supplier selection and eligibility</u>

Individual sub-projects for each supplier will be evaluated and the Platform selection criteria will be jointly tailored by IFC and the global Brand. The indicative selection criteria of suppliers under the Program would include:

- **Commitment to green investments:** The supplier/manufacturer should be willing and capable to undertake green upgrades. There is a requirement for regular reporting from suppliers on the status of the investments under financing.

- **In good financial standing:** The supplier must be able to meet IFC multi-faceted appraisal requirements including financial, social, environmental, Integrity Due Diligence, etc.

- **Complies with agreed local environmental standards, brand E&S requirements, and IFC performance standards:** IFC and GEF Secretariat will explore additional environmental criteria, including efforts to reduce use of hazardous chemicals or implement waste reduction efforts, and to determine appropriate incorporation into the supplier engagement efforts prior to CEO Endorsement stage. Furthermore, IFC will assess project to ensure it is Paris Agreement Aligned.

<u>Proposed Program Structure & Operations</u>

The proposed program structure of the facility is described below. Through this project, IFC expects to create a scalable, transformational structure capable of reaching suppliers across 10+ countries globally. IFC will monitor the portfolio and program performance to verify compliance with the program's requirements, including financial and impact reporting.

Parallel Advisory Services implemented by IFC will encompass:

(i) Suppliers:

- IFC provides technical assistance/capacity building to suppliers to help identify, assess and implement decarbonization solutions to further build and strengthen pipeline and ensure impact on the ground.
- IFC may also, after discussions with the GEF Secretariat on potential additional funding sources, provide complementary technical assistance /advisory aiming to further reduce hazardous waste and harmful chemical use.

(ii) Multinational Brands:

- Strategic engagement to help spur implementation by brand suppliers. This engagement builds on advisory and scoping work already done across 10 markets and through engagement with global multinational brands eager to reduce their scope 3 emissions footprint. These engagements are expected to continue as the Platform is scaled beyond a single brand to encompass other brands who would be expected to provide some level of risk mitigation/enhancement to enable provision of attractive finance terms to supplies to implement projects which will reduce carbon emissions and usage of chemicals.

Pipeline

The initial pipeline of potential investee clients has been developed under the ongoing multiyear IFC Advisory engagement with the Brand which to-date has provided on-the-ground support to numerous suppliers across 10 countries to identify and assess potential investments in decarbonization.

The initial pipeline of suppliers and projected supplier mix will primarily be Asia-based with countries as noted in the term sheet, but is expected to also include suppliers across Africa, Middle East and Turkey, and Latin America.

Additional projects may be brought forward which have been developed independently by suppliers themselves or through the efforts of other key stakeholders (such as NGOs including SAC, Apparel Impact Institute, Fashion for Good, MDBs and bilaterals such as GIZ and other programs).

Eligible Financing Activities for the Platform

The determination of eligible financing activities are compliant with IFC's Climate Finance[8] definitions, and shall not include coverage for investments that are inconsistent with GEF-8 Programming, including projects that result in increased supplier use of fossil fuel as part of fuel-switching or transition efforts. As per IFC and GEF commitments, the Platform will not finance any activities that may encourage the use of fossil fuels.

A final list of eligibility criteria for the Decarbonization Platform would be submitted at CEO Endorsement for review. An indicative list of activities in below:

- The incorporation of onsite renewable energy for captive use
- Heat production from renewable sources including solar water heating and increased use of renewable biomass
- Investment in renewable energy that sells excess power into grids, including potential investments in energy storage
- Energy efficiency in industry (including EE improvements and replacements)
- EE improved for lighting, appliances and equipment
- EE improvements of existing buildings, including construction of new green buildings

Indicative Project Components

The proposed project is designed with three interlinked, independent but complementary components which will support the ultimate objective of helping Brands decarbonize their supply chains and reduce hazardous chemical and waste in their operations.

The unique financing structure, backed by combined funding from GEF, IFC and the Brand, would enable eligible factories to upgrade and retrofit their operations to be more energy, water and chemical efficient. In parallel technical advisory would support supplier factories on capacity building and knowledge sharing, specifically aimed to support supplier transition on chemicals use away from chemicals known to be hazardous to human health towards more sustainable alternatives. Investments in decarbonization will lead to greener, cleaner production often at lower total cost while producing important co-benefits from reduced greenhouse gas emissions and reduced mercury emissions resulting

[8] IFC Climate Finance Definitions are available at: https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-climate-definitions-v31.pdf

from the reduction or elimination of onsite coal usage and reduction in purchase of grid-provided electricity where coal is an important contributor to sector emissions.

The implementation structure would be underpinned by an M&E and KLM component that would aggregate lessons learned, disseminate information across geographies to ensure that learning is captured and maintain linkages with local and international stakeholders, including key Textile and Apparel groups where IFC and GEF have engaged and which are expected to provide critical dissemination channels for other Brands and Suppliers. This component would also collaborate on gender-responsive solutions, including gender disaggregated data collection at the supplier factory level.

Component 1: Create First-of-its-kind Global Decarbonization Financing Facility for Textile and Apparel Suppliers

Outcome 1.1. Deploy at least US$163.7 million in financing for at least 30 supplier factories to upgrade and decarbonize manufacturing processes, including reducing energy, water and material use and switching from predominantly fossil-based electricity generation to renewable power.

Outcome 1.2. Achieve a co-financing leverage at the Platform portfolio level of at least 1:10 (GEF to total Platform size). Depending on the financial structure appropriate to the transaction, the leverage ratios may be higher on certain individual transactions.

Component 2: Mitigate the use of hazardous chemicals in supplier factories and offset future buildup of hazardous chemicals and waste in the environment.

Outcome 2.1. Provide targeted Technical Assistance. Activities will support the identification and assessment of specific opportunities for chemical reduction in production of textiles for participating Platform Suppliers, including examination of safe disposal at end of life for certain equipment that accumulate hazardous materials.

Outcome 2.2. Provide capacity building and knowledge management support to move Suppliers towards Preferred chemicals list. Disseminate outcomes from supplier factories engagements, including dissemination of knowledge, tools, and engage in partnerships with key stakeholders in country based of industry led initiatives, and shall implement training sessions to increase awareness of solutions at supplier level.

Outcome 2.3. Work with Brand client to have suppliers adopt and maintain Preferred Chemical List. The list represents safer alternatives for manufacturing and offers a more proactive approach to sustainable chemicals management, and one that can be open-sourced to benefit the entire supply chain. The Preferred list includes clearance for approximately 1,300 of the highest-use chemicals.[9]

[9] The Screened Chemistry program is shared in the industry and with the ZDHC Foundation, which is working on adopting the program as part of the ZDHC Aspirational Chemical Management level.

Outcome 2.4. Undertake efforts to include chemical reduction investments in future potential loans.

The Project Brand partner has adopted a Screened Chemistry approach examines chemicals used to manufacture our products against specific health and environmental impacts, allowing identification of better alternatives and areas for innovation. IFC will work towards inclusion of these alternatives, where identified and agreed, as part of future lending projects.

Table 3. Chemical and Waste Metrics

Indicative Metric	Target
Number of chemicals on the. Preferred Chemical List, which encourages brand our suppliers to use safer alternatives in their manufacturing	~1,300
Number of factories using Preferred Chemical List and reporting chemical use	~100

Component 3: Monitoring Evaluation, KLM & Project Management

This component will be financed by IFC and will provide technical assistance and capacity building for supplier factories, and overall knowledge management activities intended to strengthen the linkages between the supplier factories and the wider Textile and Apparel industry in order to disseminate lessons learned and spur replication. This component will also be response for M&E tracking, reporting and components such as gender disaggregated data collection and stakeholder engagement for the supplier factories. Consistent with IFC's reporting obligations to GEF, these results and progress monitoring will be reported through the PIF to GEF.

Output 3.1 Comprehensive Logframe to track the joint activities of investment and advisory platform, including gender responsive initiatives at the supplier factory level.

Output 3.2 Targeted technical assistance and capacity building for loan recipients.
Note that this TA component is distinct from the more comprehensive support offered under C2. This will specifically target resource efficiency improvements, including the incorporation of renewable energy and will be offered on an as-needed basis and will be complementary to the wider Advisory engagement with the Global Brand that has already engaged potential supplier factories on decarbonization opportunities.

Output 3.3 Supplier factories agree to work with IFC on gender-equality specific programming, including capacity building and training. This component will also track and coordinate with existing textile-specific IFC gender programs, including **Better Work and GRIP** (see Gender section, p. 28), in Textiles to bring Supplier Factories under C1 and C2 into direct gender responsiveness work to benefit women as employees and managers.

Output 3.4 Creation of a suite of knowledge products, summarizing lessons learned from the program, disseminated through selected high-impact industry channels.

This knowledge plan will seek to address the following specific areas, with workplans and deliverables under each sub-component and will be refined prior to CEO Endorsement:

(a) **Address persistent barriers of lack of information and lack of awareness** at supplier level on options and technologies to reduce carbon emissions and address chemical reduction 22opportunities, including through:
    a. Implement a series of workshops (4-6)
    b. **Design information dissemination activities** via multiple media channels (independently and in coordination of key stakeholders implementing relevant programs, such as Fashion Pact, UNFCCC, global industry groups (such as SAC and Apparel Impact Institute), and country-level associations, such as BGMEA, and via efforts of other global Brands, via:
        i. In-person events
        ii. Peer-to-peer learning
        iii. Web-based activities
    c. Designate a KM lead to oversee implementation of full program, and ensure consistency in KM activities linked to implementation progress

(b) **Formalize process for internal collection of KM efforts and materials**, including utilization of project and institution web-based platforms (as well as country-level project sites such as IFC PACT Bangladesh) for dissemination.

(c) **Capture and create new knowledge products** from early implementation experience
    a. Document and create client and technology case studies (target 4-6) t
    b. Support and promote actions of early adopters

(d) **Strategically share and dissemination lessons** from implementation with broader community of practice, and key stakeholders:
    a. Efforts shall include both **direct project outreach**
    b. P**artnerships with relevant stakeholder entities** (including brands, global NGOs and industry groups, country specific groups, key bilateral and multilateral entities, etc) to ensure that lessons from implementation are broadly shared externally
    c. **Utilization of relevant GEF operational focal point platforms**, where appropriate and engaging with the GEF SEC to support KM sharing and dissemination.

Table 4. Project Components – Indicative Outline of Metrics & Associated Budget

					(in millions, US$)	
Project Components	**Component Type**	**Project Outcomes**	**Project Outputs**	**Trust Fund**	**GEF project Financing**	**Cofiancing**
Component 1:	INV	Mobilize financing for new financial structured aimed at decarbonizing Textile & Apparel Supplier factories	Deploy at least US$163.7 million in financing Maintain 1:10 leverage ratio	GEF Trust Fund IFC In-Kind	$13.7m (NGI) $300K	$75m (IFC) + $75m (Supplier factories) +

						$15m (Brand) not incl.
Component 2:	TA	Mitigate use of hazardous chemicals in Supplier production	Use of safer chemicals to be tracked, per conventions -Number factories receiving direct technical assistance to identify and implement chemical reduction efforts - Number of factories receiving information on Preferred Chemicals list - Number of factories adopting Preferred Chemicals list - Hazardous chemicals reduced	GEF Trust Fund	$917K (CW)	$300K
Component 3:	TA	Monitoring & Evaluation (M&E); Knowledge Management & Learning (KM/L)	- Number of factories receiving targeted TA for EE/RE/Decarb - Number of women in supplier factories benefiting from IFC gender interventions - Associated Knowledge Products and Dissemination following KLM plans (KLM plan - see p. 31 for detailed KLM plan)	IFC In-kind	n/a	$300K

Risks to Project Design and Implementation

Projects under the Program will be implemented in accordance with GEF-8 and IFC's relevant policies and procedures and screened against a number of risks, largely to ensure Program success through financial viability and environmental and social integrity.

Table 6. GEF Risk Categories

Categories	Rating	Comments	Mitigant
Climate	Low	Climate change may impact supplier operations in certain countries/locations at risk of flooding, wildfires, heat, etc	IFC screens all projects for climate risk and a specific climate action plan is designed for each financed project, as necessary.
Environmental and social	Moderate	E&S issues are a potential risk in this value chain - negative performance by suppliers in this area (social, labor, env compliance) will impact brand acceptance of suppliers in supply chain, or deprioritize climate mitigation actions in favor of more pressing E&S issues As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC's Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement.	IFC is a market leader in setting standards for ESG. More information on how IFC screens all of its projects for ESG risks is outlined in Table 7 and in the enclosed Annex on IFC's Performance Standards.
Political and governance	Low	Not directly applicable for private sector focused project	While not directly applicable, all IFC projects are assessed for macroeconomic risks including the impacts from the political and governance environment. Mitigation actions are applied as needed.
Macroeconomic	Moderate	Negative overall economic conditions can impact entire sector, putting high financial pressure on suppliers causing them to defer/cancel climate/chemical investments. Political and country	Please see above.

		risk may exist, which are country-specific to the political and economic situation, and which are subject to sudden and unexpected changes. mitigated by global diversification.	
Strategies and policies	Low	Change in govt trade/tariff policies may impact supplier outlook, but this is mitigated by global diversification	The regulatory and policy environment is assessed for all IFC projects. However, for a global platform such as an IFC/GEF collaboration, this would be likely to occur in one country; the Platform would be protected by a diversified, multi-country portfolio.
Technical design of project or program	Low	Program is designed given IFC decade plus of relationships in the textile space and intended to encourage technical innovation, agnostic of type.	The platform is technology agonistic, seeking to upgrade to better, carbon mitigation and/or renewable power. The proposed structure is designed to accommodate a wide variety of interventions that can ensure to capture realtime changes and updates available in the market.
Institutional capacity for implementation and sustainability fiduciary: financial management and procurement	Low	IFC institutional/implementation capacity in these markets is robust.	IFC has been working in emerging markets for more than 60 years and has developed robust internal governance and implementation standards that apply to all its projects, regardless of funding source.
Stakeholder engagement	Moderate	Key risk is pipeline mobilization/activation, mitigated by role of brand (key buyer)	IFC believes that this risk is mitigated by its strong relationship with the Global Brand, which has committed to provide the pipeline from its supplier factories.
Other- borrower risks – (Manufacturer/off-taker, or developer risk)	Moderate	Risk of lending to the Textile, Apparel and Footwear manufacturing plants, many of which are SMEs.	In the case of the third-party finance model where the solar DG developer/ESCO is the borrower, the contracts vary widely and allocate the various risks across the developer, EPC, operations and maintenance contractor, end user/electricity consumer, and financier.
Financial risk for NGI projects	Moderate	Supplier credit risk, potentially increased by macro conditions	The risk is partially mitigated by the FLG provided by the Brand, and by GEF funding.
Overall risk rating	**Low/Moderate**	**The structure has not been tried previously and the countries where the supplier factories are**	**As with any new financial structure there is operational, industry and country-level risk**

		located are challenging environments.	**however IFC believes that it has mitigated risks most common to these types of projects**

In addition to the project-risks noted above, IFC also screens all investments for the following risks, which are included but not limited to:

Table 7. IFC - Additional Risks Screening for IFC Projects

Credit Risks	With the Project's investments targeting suppliers, including SMEs, to retrofit or install new low carbon options it can be expected that the resulting portfolio may be less diversified and riskier than IFC's overall climate portfolio. To enable those highly additional and impactful projects, Program funds will require the ability to assume higher risks (and lower returns) than commercial investors, including IFC. At the same time, GEF's contribution to the Program comes with an expectation of capital reflows. Although GEF may be exposed to the credit risks of the investments under the Program, reflows will come back to the Program based on the financial performance of those investments. Typical credit risks and mitigating factors that are expected to be considered during project screening, due diligence, and financial structuring are described below.
Country Risk	Investments under the Platform may occur in countries with uncertain political and economic outlooks, making the provision of long-tenor financing challenging.
	Mitigant: Projects will be carefully selected and reviewed to ensure typical protections, such as political force majeure, and other appropriate risk-mitigating products, as necessary.
Sector risk	In some countries, regulatory reforms to support purchase of renewable energy by suppliers are not yet fully in place, creating uncertainty as to the value of these investments. Reforms, or the lack of them, may affect the long-term financial viability of potential projects. *Mitigant: Sector reforms often need to take place over time in order to succeed, so investments will be focused on capturing immediate benefits given existing regulatory structures (i.e., inside the fence opportunities if export is constrained, etc)*
First mover risks	Initial private sector projects supporting new technologies, product offerings or business models will face typical risks associated with lack of experience and capacity in the sector.
	Mitigant: The Program will benefit from IFC's selection of projects with the right combination of sponsors and suppliers to maximize the chances of success. The Program will also benefit from IFC's global experience in structuring and financing projects across emerging

	markets, as well as the combined package of advisory deployed alongside investment.
Environmental and Social (E&S) risks	IFC requires that all projects are assessed and screened for environmental and social risks. Projects are required to meet and operate in a manner consistent with IFC's Sustainability Framework, including IFC's Performance Standards (PS) on Environmental and Social Sustainability. The Sustainability Framework enables IFC to incorporate E&S risk management into investment analysis and decision-making processes through a transparent and disciplined approach. **Consistent with IFC's Sustainability Framework, risk screening (including for climate risks) for the portfolio will occur prior to approval, at the transaction level. (Please see the Annex for more detail on how IFC assesses E&S Risk).** As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC's Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement.
Integrity risks and anti-money laundering/anti-terrorist financing policies	IFC holds itself to the highest standards of integrity in the conduct of its business and expects its project sponsors, clients, co-financiers, and counterparties to meet these same standards. Each potential investment project presents a unique level of integrity risk, which is the risk of engaging with external institutions or persons whose background or activities may have adverse reputational and/or financial impact on IFC and its partners. In accordance with the best practices of international financial institutions and multilateral development banks, IFC implements an integrity due diligence (IDD) process to identify, examine, and document integrity risks in potential and existing engagements and evaluate the integrity risk in order to decide whether to proceed with an engagement. In addition, IFC is committed to combating money laundering (AML) and the financing of terrorism (CFT). IFC has a visible and effective program on AML and CFT, which supports its development mission and safeguards its reputation, as well as mitigating financial and operational risks. IFC takes into account and supports international best practices, as well as promoting these best practices among its clients to ensure that all IFC operations, and those of its partners and clients, are regularly reviewed and improved.
Corporate Governance	IFC requires a corporate governance analysis for potential investment projects as part of its due diligence process. In this analysis, IFC makes use of IFC's Corporate Governance

	methodology, which evaluates corporate governance risks of client companies and opportunities to address issues and enable improvement. The focus is on commitment to good corporate governance practices, shareholder rights, accountability, the board of directors, the control framework, disclosure and transparency. This can be demonstrated through: (i) demonstrated commitment by the client company and its shareholders to implementing high quality corporate governance policies and practices; (ii) capacity of the Board of Directors to oversee the strategy, management and performance of the company; (iii) ability of the client company's risk management and controls to ensure sound stewardship of the company's assets and compliance with relevant regulations; (iv) client company financial disclosures that offer relevant, faithful, and timely representation of its economic transactions and resources; and (v) adequate and fair client company's minority shareholders' rights.
COVID-related risks	Although the program diversifies across countries, it concentrates on the TAF sector, whose timing for full post covid sector impacts recovery remains uncertain. The portfolio is likely to be more at risk given the high sector concentration.

Safeguard Rating (PIF) Level:

IFC Preliminary Safeguard Rating: Moderate

IFC assesses E&S Risk throughout the project approval cycle; the initial rating provided is preliminary and is subject to revision prior to CEO Endorsement. Additional project-specific risks have been outlined and rated in Table 6.

The following text is taken from IFC's Internal Concept Review Note and has been edited to preserve client confidentiality.

> *Investments under this facility would be relatively small and a process would have to be developed and agreed to manage E&S screening, due-diligence, public disclosures, and post-investment monitoring, including adequate internal IFC E&S resources to support the processing.*
>
> *Mitigant: (i) The E&S team has completed a preliminary review of the client. TOE system and found that this is aligned with IFC-PS; (ii) The E&S team would explore during due-diligence, the potential to leverage the client's E&S management system for IFC E&S review of individual projects such that, after a pilot to validate the E&S due diligence approach, most projects will require appraisal, and detailed appraisal will only occur on projects with specific risk flags; (iii) The E&S team has developed an initial due-diligence approach that will be confirmed during*

appraisal to determine the effectiveness of the client's E&S management system and establish criterion for appraisal. The final structure and rules of the Facility for processing each Project will be determined based on the E&S risks identified and the capacity of the client to manage E&S risks.

Alignment with GEF-8 Programming strategies and country/regional priorities

The project is first well-aligned under:

(I) Under ***GEF-8 Climate Change Focal Area Strategy***

a. Alignment is specifically noted under **CCM Pillar 1** and **CCM Objective 1.1. Accelerate the efficient use of energy and materials.** The GEF contribution is expected to catalyze resource efficient investments that will result in energy and/or water savings, with potential additional benefits to be realized from the reductions of hazardous chemicals, waste and materials.

b. Under **CCM Objective 1.2 Enable the transition to decarbonized power systems**, encompasses a financial package that is geared to incorporate and finance the addition of small scale renewables (up to 1MW) at the Supplier factory level. This will also be a key point of access for Supplier factories in many countries where 24/7 power is still not reliable and the use of diesel backup generators is exorbitantly expensive. The suggested eligibility criteria to accommodate for alignment with CCM 1.1 and CCM 1.2 can be found in the Project Term Sheet. Consistent with GEF-8 Programming Directions and IFC's Green Equity commitment of 2023, which went into effect on January 1, 2023, IFC requires a commitment from its clients to not originate and finance any new coal projects of. **No project supporting or encouraging the use of coal will be financed by this project.**

(II) Under ***GEF-8 Chemicals and Waste Focal Area Programming Strategy***

a. The project is well-aligned with the "**Elimination of Hazardous Chemicals from Supply Chains Integrated Program**", specifically **Objective 1**. "**Creation, strengthening and supporting the enabling environment and policy coherence to transform the manufacture, use and sound management of chemicals and to eliminate waste and chemical pollution",** which notes that the environmental damage and pollution from supply chains, including textiles, have significant impacts on environmental and human health.

b. Under **Objective 2**. "***Prevention of future buildup of hazardous chemicals and waste in the environment".*** The GEF-8 Programming directions note that the existing work to advance environmental sustainability within these supply chains has focused primarily on climate change and biodiversity, but that little progress has been made to eliminate hazardous chemicals and materials.[10] The IFC/GEF Platform is specially aligned in its focus on:

   i. Introducing the best available techniques and best environmental practices to minimize and eliminate emissions of unintentionally produced POPs and

[10] GEF 8 Programming Directions,

mercury from major source categories included in the Stockholm and Minamata Conventions.

ii. Phase out and eventual elimination of mercury or mercury compounds used in manufacturing processes contained in Annex B of the Minamata Convention.

c. The GEF sectoral focus areas are also well-aligned with the sectors in which IFC believes its decarbonization platform financing approach could be most beneficial, namely, **textiles/fashion & apparel, automotive,** and **construction materials**. Avoidance of coal emissions both directly onsite at supplier factories and via offsite reduction through reduction in purchased and transmitted grid electricity will lead to reductions in mercury emissions. In addition, supplier level direct technical assistance will lead to the reduction of onsite chemical usage and wastes, including persistent organic pollutants.

In addition to the primary alignment mentioned above, the Platform is fully consistent with GEF-8 Focal Area of Climate to **achieve systems change** and support the goal to be **carbon neutral** and pollution free by 2050. The program is also well aligned with the Net-Zero Accelerator to assist countries to go beyond the ambition of the existing NDCS and contribute to closing the emissions gap to meet the Paris Agreement targets.

In additional, the project to support the **objectives of the GEF Non-Grant Instrument** and the successful **engagement of GEF-8 with the private sector** to engage in innovative technologies and business models that can yield robust global environmental benefits, consistent with GEF focal area objectives.

The Project is also consistent with GEF's objective under **Sustainable Cities** to **promote innovative financing for green investments** – the program will catalyze increased flow of finance towards cities, where many of these suppliers are located, and it aims to support cities in mobilizing large scale capital through mechanisms de-risking instruments, such as proposed under the platform.

The Platform has planned to collaborate with other active IFC-led gender-focused projects in the Textile and Apparel space to incorporate **gender-inclusive approaches** by empowering women, particularly those in the supplier factories and identifying other potential entry points, indicators and targets to be able to track the integration of gender issues across the program, which will be presented at CEO Endorsement.

With **regards to alignment with national and regional priorities**, IFC has made a commitment to ensure all of its investments are Paris Aligned by July 1, 2025. IFC is currently on track with 85% of its investments Paris-aligned as of July 1, 2023. The World Bank Group's Paris Alignment entails an integrated vetting approach – screening, managing, and reducing climate risks for both mitigation and adaptation.[11] With this commitment, financial support for any country, public or private entity, must be consistent with the objectives of the Paris Agreement and a country's pathway towards low greenhouse gas emissions and climate-resilient development. Practically, all World Bank Group financed operations must support the deployment of lower-carbon options as applicable, whenever technically and economically feasible, and prevent carbon lock-in; and ensure that material climate risks have been assessed and reduced through the design of the operation to an acceptable level.

[11] Screening for projects relies on publicly disclosed Instrument Methods (World Bank), Sector Notes (World Bank Group), and joint MDB Paris Alignment Approach (directly applicable to investment/guarantee operations for IFC and MIGA).

Finally, IFC believes **this project is well aligned with private sector strategic priorities**. The mitigation of supply chain (Scope 3) emissions is essential in achieving climate commitments globally, but is especially critical for larger multinationals under international pressure to meet corporate commitments to green their supply chains. Many large companies' commitment to deep, long-term reductions in GHG emissions require extensive changes to their supply chain engagement, including sourcing, code of conduct, management, and financing. This increasing attention to GHG emissions from global brand buyers will put increased pressure on suppliers to cut their emissions. However, addressing Scope 3 emissions has proven particularly challenging due to a variety of market barriers faced both by the Brands and their suppliers.

Policy requirements

Gender Equality and Women's Empowerment

Apparel manufacturing provides direct formal employment to over **60 million**[12] workers along its value chain. **Over 80% of apparel workers in key Asian markets such as Cambodia, Indonesia and Vietnam are female.**[3]

Consistent with IFC's Gender Strategy, the project will undertake, as and when appropriate, a gender-responsive approach to investments. Concessional investments have development impacts and co-benefits that must allow women, along with their families and communities, opportunities for employment, access to services, income generation, and entrepreneurship. Investments may also present challenges that need to be addressed to ensure both women and men benefit, which IFC will consider and take into account during individual project development.

Project specific engagement for the Decarbonization Platform will be designed along the strategic pillar of **Expanding and Enabling Economic Opportunities for women** and will be implemented by through a gender responsive M&E framework **that will include gender disaggregated metrics for supplier engagements**. In parallel, **IFC will also engage through collaboration and coordination with two active gender-based IFC programs currently operating at supplier factories in Textiles and Apparel**. These programs are both IFC-run and IFC-staffed and are currently active in the majority of countries included under the Program's initial pipeline. These include:

> I**FC-ILO Better Work Partnership** that works to improve working conditions and competitiveness in Textile and Apparel value chains. The Better Work Program is engaged with more than 50 global brands and retailers as partners, and more than 2,000 apparel supplier factories, reaching 2.5 million workers across 12 countries. At the factory level, Better Work provides labor assessments, training, and advisory services
>
> **Gender Equality and Returns (GEAR**) a training program that helps female workers progress and excel in managerial roles, increasing gender diversity at the management level. The program currently partners with leading apparel brands, such as H&M and Marks & Spencer, and to date has trained more than 750 female employees in over 100 apparel factories.

IFC knows that the private sector is an important avenue for efforts aimed at increasing women's economic empowerment. In 2012, IFC adopted gender as one of six cross-cutting strategic priorities. In December 2015, the World Bank Group launched a Gender Strategy (FY16-23), for the first time jointly

[12] Better Work 2018-22 Strategy; Pulse of the fashion Industry,2017.

committing the institutions of the WBG (including IFC) to support public and private sector clients in closing gaps between men and women. Following the WBG Gender Strategy, IFC developed a Gender Strategy Implementation Plan (GSIP), which outlines how IFC will prioritize its work on closing gaps between men and women. The World Bank 2024–2030 World Bank Gender Strategy puts forward the bold ambition to accelerate gender equality for a sustainable, resilient, and inclusive future in alignment with the World Bank Evolution Roadmap. This Strategy responds to the global urgency, fundamentality, and complexity of achieving gender equality and proposes to engage with greater ambition—approaching gender equality for all as essential for global development. IFC's priorities are to improve women's access to more and better jobs, and to enhance women's access to assets, including finance, technology, and markets. IFC works with companies on recruiting and retaining diverse talent, including getting certified on gender outcomes and narrowing the gap in management and on corporate boards. IFC continues to expand its work in closing gender gaps through investments, with recent commitments to quadruple annual financing dedicated to women-led businesses and achieve a 50 percent share of women directors where IFC has a board seat.

Stakeholder Engagement

The global brand is an IFC Global Manufacturing Strategic Client with whom we have been working on multiple engagements for more than a decade. They were one of the first clients of IFC's Global Trade Supplier Finance (GTSF) program launched in 2014, which includes differentiated pricing to suppliers for short-term financing based on their environmental and social rating and their progress in implementation of decarbonization investments. IFC has also been engaged with the brand for many years through our Advisory Services for PaCT (Partnership for Cleaner Textiles) GEAR and Better Work Programs to support their suppliers' adoption of energy-saving, cleaner production methods and cost saving investments to reduce water and energy use and to improve working conditions, respect labor rights for workers, and boost the competitiveness of apparel businesses. They have been a long-standing brand partner of Better Work (ILO/IFC) since the program's beginning and currently have almost 50 factories enrolled in Better Work in six countries.

TAF sector contains numerous national, international and civil stakeholders across the public and private sector. These include, but are not limited to:

- **Private sector companies,** suppliers to global value chains both tier 1 and tier 2
- **Technology developers**, engineering companies, engineering firms, energy efficiency equipment manufacturers, etc.
- **Government ministries, Special economic zones and export agencies**
- **Civil Society Organizations (CSOs)** and **Non-Government Organizations (NGOs)** that provide input or represent the priorities of sustainability, IFC and the World Bank Group have extensive networks and active consultations with the majority of the industry's stakeholders and is a signatory to the UNFCCC Global Fashion PACT. As the Project establishes its efficacy, it will refine its offering knowledge management events with relevant stakeholders and industry groups, which will be able to offer further guidance on potentially available technology offerings and models. Learnings from these knowledge events will be adopted by the Platform accordingly and disseminated to the larger industry group.

- **Gender responsive initiatives**, particularly those targeting the textile and apparel space where IFC is an implementing partner, such as ILO-IFC Better Work or Gender Equality and Returns (GEAR), will be consulted as to potential areas of collaboration at the Supplier factory level.

In preparation to discuss this Concept with the Secretariat, IFC has held numerous consultations. Below are several key recent meetings with stakeholders:

- Brands (specifically ongoing consultations with the Global Brand planned for this engagement), as well as multiple engagement with other leading global brands who in some cases share certain suppliers with our key global brand client
- NGOs (including the Sustainable Apparel Coalition – SAC including at their June 2023 meeting at ITMA, Apparel Impact Institute) Fashion for Good
- Industry consultants including Guidehouse, Deloitte, etc
- PV Project Developers
- Financiers- including HSBC and several IFC country partner banks
- Key stakeholders from brands (PVH, GAP, H&M, Inditex, Lululemon, finance (HSBC, citi, standard chartered) and NGOS at NY Climate week for fashion decarbonization workshop (September 2023)
- Financing Decarbonization in the Apparel Supply Chain workshop (November 2023)

Prior to project launch, an additional series of stakeholder engagements will be implemented, with the explicit goal of strengthening program mobilization, linked to KM and awareness raising and to identify future potential partners for implementation/pipeline generation/KM outreach and dissemination.

Private Sector

The mobilization of private sector financing is one of IFC's core mandates and is instrumental to changing the rising trajectory of global emissions. This investment is anticipated to be highly visible among private sector players, as it incorporates IFC's ability to deploying innovative financial instruments, convene multi-stakeholder alliances and crowd in innovative private sector financing.

The project includes an innovative risk sharing structure that will be on of the first to systematically address the decarbonization of supply chains. The structure, paired with the expected capacity building and collaboration with industry associations and networks is expected to offer a comprehensive, multi-country, climate-focused, pooled first loss structure that will be a first-of-its-kind for IFC.

In order to ensure the use of blended concessional funds will have a strong development impact and will not undermine the functioning of private sector markets, the Program will be subject to IFC's Blended Finance governance framework. IFC's investment standards and blended finance principles and processes will be adhered to under the proposed Program and the individual sub-loans to supplier factories.

A private-sector engagement through the project is expected to encourage sustainable business investment by providing innovative instruments and solutions customized to provide minimum concessionality and move markets towards sustainability. Investments will also target the scale up of the new, cleaner technologies, including mainstreaming renewable technologies such a solar, which can be combined with other enhancements for health and safety, such contactless entry, that will reduce emissions and lower operational costs for businesses.

Finally, crowding in private sector financing is at the core of IFC's business. At the global level, the project is expected to crowd in a minimum of US$75 million from other private sector sources.

Environmental & Social Safeguards

See Annexes.

Other Requirements

Knowledge Management

During the project preparation for CEO Endorsement, the project team will present a final comprehensive KM/Learning plan.

The knowledge plan will be implemented following the approach outlined below:

(e) **Address persistent barriers of lack of information** and lack of awareness at supplier level on options and technologies to reduce carbon emissions and address chemical reduction 34opportunities:
   a. The project shall implement a series of workshops and information dissemination activities via multiple media channels such as inperson events, peer to peer learning and web-based activities, both independently and in coordination of key stakeholders implementing relevant programs (eg Fashion Pact, UNFCCC , etc) as well as via global industry groups such as SAC and Apparel Impact Institute, as well as country level associations such as BGMEA, and via efforts of other global Brands.
   b. Designate a KM lead to oversee implementation of full program, and ensure consistency in KM activities linked to implementation progress

(f) **Formalize process for internal collection of KM efforts and materials**, including utilization of project and institution web-based platforms (as well as country-level project sites such as IFC PACT Bangladesh) for dissemination.

(g) **Capture and create new knowledge products** from early implementation experience
   a. Document and create client and technology case studies (target 4-6) to support and promote actions of early adopters. Knowledge products

(h) **Strategically share and dissemination lessons** from implementation with broader community of practice, and key stakeholders
   a. Efforts shall include both **direct project outreach**, as well as **partnering with relevant stakeholder entities** (including brands, global NGOs and industry groups, country specific groups, key bilateral and multilateral entities, etc) to ensure that lessons from implementation are broadly shared externally, including utilization of relevant GEF operational focal point platforms where appropriate and engaging with the GEF SEC to support KM sharing and dissemination.
   b. These KM and learning efforts are a key element in ensuring longer term persistence of project benefits, and through demonstration shall provide a clear path for broader replication and scale up to achieve impact beyond the individual suppliers receiving direct financing assistance backstopped by the GEF support.

Specifically, the Project will seek to leverage information, learning and knowledge gained from investments and disseminate it transparently and publicly to other market players and key stakeholders' specialists in order to support additional scale up and/or replication. Knowledge management activities will include:

- Involving stakeholders in the project's final design and launch, in order to learn from their collective experiences
- Providing visibility for the retrofits as well as disseminating the results from individual projects where confidentiality provisions make it possible to showcase success stories
- Providing thought leadership on technical and operational improvements for TAF suppliers, including insights into investments that provide highest return and shortest payback periods
- Disseminate aggregate data on experiences with specific technologies and operations, subject to client confidentiality
- Leverage IFC's role as a global convener to bring together private sector participants and other stakeholders in order to share experiences, provide lessons and support public-private partnerships

IFC efforts will seek to coordinate with and incorporate emerging lessons from experience from several ongoing GEF projects, including the 'Reducing uses and releases of chemicals of concern in the textiles sector programme' which weeks to manage and reduce hazardous chemicals in the textile industry in their respective countries. The project will also draw from lessons learned as presented by GEF in the 2020 "Efficiency Solutions for Industrial Heat" case study on Lotus Garments in Egypt, and the 2014 "Energy Systems Optimization in an SME" case study on Sockit Manufacturing Ltd in South Africa. Produced by UNIDO and the Industrial energy Accelerator, lessons learned in this case have been considered by the project design team, including elements of thermal improvement and energy management systems as part of potential supplier investment programs, especially prior to investing in renewable applications.

Specific knowledge work and dissemination work is detailed in the Investment Platform's proposed work plan and the final logframe will be presented at CEO Endorsement.

Monitoring and Evaluation Plan

Among the benefits of IFC's co-investment model with blended concessional finance projects is that it allows concessional investments to automatically benefit from IFC processes and procedures, including IFC's integrity due diligence process, monitoring & evaluation and environmental and social safeguards and other appraisal elements done for IFC-own account standard investment services transactions. IFC's monitoring and evaluation is done through project supervision that is regularly performed by IFC project staff and captured in standard project monitoring and supervision reports. Climate change outcomes and impacts, such as GHG mitigation, are also captured in IFC's Results Measurement System. This model allows blended finance transactions access to monitoring and evaluation for very limited additional costs.

Additional reporting requirements, including environmental and social performance, measures of financial and development performance, if applicable, are covered from donor administrative fees, which also support IFC's separate governance structure for blended concessional finance projects across the full project lifecycle from initiation to closure. These M&E benefits are embedded and paid for from the IFC administrative fees that are standard for GEF NGI projects. **Please note that IFC's M&E processes are embedded in every IFC project, regardless of financing source. No separate M&E budget is required.**

A list of indicative metrics to be tracked are included below:

Table 5. Proposed Monitoring & Evaluation Metrics[13]

Component 1: Supply Chain Decarbonization Facility
Supplier factories financing proposals received and assessed Total capital mobilized (USD) Leverage Ratios (GEF: IFC/Total Platform) Estimated CO_2 emissions avoided (tonnes/CO_2e) Amount of mercury avoided (tonnes) Gender responsive metrics for beneficiaries[14]
Component 2: Mitigate use of hazardous chemicals in Supplier production
Number factories receiving direct technical assistance to identify and implement chemical reduction efforts Number of factories receiving information on Preferred Chemicals list Number of factories adopting Preferred Chemicals list Hazardous chemicals reduced (tonnes)
Component 3: Technical Assistance; MLK
Number of factories receiving additional targeted technical assistance specifically for capacity building for EE/RE Knowledge products created from lessons learned from joint implementation of CW and EE/RE decarbonization. Dissemination events/attendees (to be decided)

Incremental Cost Reasoning

Incremental cost reasoning and GEF role.

As an investor in developing markets for the past six decades, IFC is aware that private investors often avoid projects that involve untested approaches—or those that the markets perceived as too risky. Although opportunities for cost-effective, energy efficient improvements for resource efficiency have

[13] IFC anticipates that these metrics will evolve and be refined as the project nears commitment but proposes this as an indicative framework based on the current project design.

[14] As noted (see Gender Equality & Women's Empowerment section) IFC has several specific gender programs currently active in Textiles and would plan to collaborate actively with these programs to bring in eligible supplier factories.

existed for decades, to date there have been no systematic industry interventions able to aggregate supply chains and provide financing, despite commercially proven technologies that would reduce operational costs. A significant portion of this reluctance to invest can be attributed to the lack of appropriate de-risking instruments.

IFC proposes to deploy the critical GEF funds as subordinated liquidity, providing projects some, but not complete, coverage against underperformance of green efficient investments to manufacturers. In keeping with the DFI Enhanced Blended Finance Principles, IFC believes the structure proposed both meet the conditions of **minimum amount of concessionality** required to ensure that the underlying green investments proceeds.

Business-as-Usual Scenario.

Concessionality from GEF is vital to the success of the proposed structure. The de-risking benefit provided by the GEF funding allows the Platform to finance the supplier factories at lower prices and for longer tenors than would be available commercially. Without GEF financing as part of the structure, these loans to suppliers will not occur. To date, there has been no systematic effort to address carbon emissions in supply chain factories. Domestic banks are often unable to provide attractive terms and even when small lending lines are available, they are generally restricted on a country-by-country basis which is a poor fit for the global nature of the textile and apparel supply chain.

Innovation.

IFC believes the proposed Decarbonization Platform structure is the first of its kind to systematically address GHG emissions in supply chains via a de-risked finance solution anchored with a global brand partner (s). The proposed structure also includes a unique FLG element provided by a Global Brand, ensuring buy-in and alignment of interests. Investments are expected to offer attractive financial terms and will be structured with the expectation of reflows. GEF financing is expected to be structured as close as is feasible to commercial rates of return, in keeping with the principles of minimum concessionality, while still allowing the transaction to happen. The Term sheet with additional details can be found in Annex G.1 and a summary of anticipated reflows in Annex G.2.

Sustainability and Potential for Scaling Up.

This program is designed to offer a novel, first-of-its kind model to address the decarbonization of supply chains at scale by leveraging the financial participation and influence of global brands. The s structure has been designed to provide efficiency and flexibility across multiple countries as the Platform is scaled across geographies and can be potentially expanded to include a larger set of loans or larger number of brands participating.

The initial pilot which would focus on the textile, apparel and footwear sector, beginning in the highest emission activities of textile production (dyeing, finishing) and assembly, which account for more than 50 percent of the Brand Scope 3 emissions. would lead to additional engagements and important implementation lessons, including costs and risks, that could be incorporated as the offer is scaled globally across the top emitting supply chains. The pipeline for this Program would initially use a global brand as an anchor sponsor who, in collaboration with IFC has already identified US$75 million in potential IFC lending for suppliers across 10 markets. However, additional brands may participate as well, extending the influence of this mechanism to a broader universe of suppliers.

Appropriate and Enhanced Co-financing Ratios.

The Platform is initially expected to support a green loan portfolio of up to US$163.7 million, consisting of (i) up to US$75 million in IFC investment, (ii) up to US$75 million from supplier equity, and (iii) up to US$13.7 from GEF subordinated lending (indicative leverage of up to approximately 1:10 for the program). IFC is also proposing to leverage the short-payback periods available for many decarbonization investments, in order to revolve the Facility, raising the co-financing and leverage ratios. Cofinancing in this structure is vital to ensure the Platform is able to scale and to demonstrate that this model is able to effectively address supply chain emissions. This could encompass an expansion of the existing platform by adding additional brands in the textile and apparel sector, or by replicating the structure in another high-emission sector, such as construction materials or automotive. Were IFC to revolve the Facility 1x within the investment period, the co-financing ratio may be as high as 1:20x, while also doubling the expected environmental co-benefits.

With GEF offering risk mitigation as an anchor donor, additional stakeholders may have increased confidence to participate in this structure, further enhancing leverage. IFC anticipates that direct financing enabling brands to support this new financing line for their suppliers could enable future lending products and higher future mobilization.

Additionality.

This program provides financial additionality to participating suppliers, offering terms and conditions that would not be possible in the absence of the risk mitigation, accelerating and deepening the level of decarbonization investments by suppliers in the global value chains of leading multinationals. The financial additionality is related to ability of concessionality provided by GEF to unlock Global Brand/Buyer financial contribution to help address Scope 3 emissions, which they have historically been reluctant to do given their desire to not to enter into direct long term financing relationships with their suppliers which may complicate their procurement relationship.

Given the perceived risks associated with lack of comfort and ability to accurately project defaults due to the lack of deep track record of this new model, any potential risk sharing fees would be too high to be commercially sustainable and could negate much of the financial benefits of the offer. GEF provides unique additionality for this project; IFC does not have access to another source of concessional funding that can operate globally, including in middle income countries that can support both a concessional de-risking product and as well as the global ambition of the project to scale globally in a sector agnostic manner.

Innovative Use of Proceeds.

The project's innovative financial structure is distinguished by (i) unique structure enabled by a risk sharing facility to incentivize greening supply chains across emerging markets (ii) the provision of additional first loss through a global buyer.

While subordinated lending as a product is not new to IFC it has not been deployed exclusively in the supply chain space and never in this specific manner. This structure, relying on additional private sector-provided coverage for risk mitigation for greening of their own supply chain, will be a first for IFC. Additionally, this will be one of the first times IFC will accept a sector specific mandate for the textile pilot, heightening the amount of risk IFC is willing to accept to support this new mechanism.

Capacity to generate reflows.

All projects will be structured as returnable capital. IFC has proposed a revolving facility that would be initially recapitalized with reflows, which would then be redeployed, with concurrence from the GEF Secretariat. At the end of the investment period, any transfers of reflows, repayments, interest payments, and/or fees would occur in line with IFC's standard reporting to GEF. Expected reflows are summarized in Annex G.2.

Global Environmental Benefits.

The program will target carbon emissions reductions of almost three (3) million tCO_2 from an initial portfolio of textiles factories across multiple regions to invest in green and efficient technologies. Although the payback period for these investments is expected to be 3-5 years, the interventions would be expected to keep producing environmental benefits from energy and water savings well beyond the payback period, which can extend more than 20-30 years for certain investments such as green buildings for new facilities. Projects may also have adaptation and resilience benefits, particularly through the decarbonization of infrastructure.

Leveraging decarbonization as a pathway to reduce Chemicals, the project will also target the reduction of 5,029 grams of mercury annually from Supplier factory production processes. This will include calculations of direct reductions of mercury emissions resulting from the investments made by the Decarbonization Platform that reduced the Supplier need and use of coal-based onsite thermal and purchased electric power, as well as the incorporation of renewable energy that displaces grid power. The reduction of harmful or hazardous chemicals and waste, including avoided mercury emissions, would be tracked separately. Further details on direct impacts and indicators to track these benefits would be agreed and identified prior to CEO Endorsement.

Beneficiaries.

The ultimate beneficiaries of the concessionality are underlying businesses, including manufacturers and suppliers to the brands, in countries to where the Platform extends loans. The embedded subsidy under the project will thus benefit suppliers and support GHG mitigation, health benefits improved competitiveness and job creation in this sector. The concessional de-risking provided by the first loss structure will also benefit global brands buying in these countries by providing them risk mitigation tools to extend liquidity and support their portfolio of suppliers to become green and more resource efficient. This project will also track gender disaggregated metrics and the employees benefiting from improvements in operational efficiencies at the targeted factories, as well as the results of gender equality based programming coordinated through the project at the supplier level.

Implementing Agency Assessment

IFC, acting as an Executing Agency for the World Bank Group, an Implementing Agency of the GEF, would execute the activities under the Platform.

The Platform will leverage IFC's network of key global private sector players, the IFC's financial structuring expertise, its role as an honest broker and global convener of the private sector and its

longstanding experience and demonstrated track record of success working in the Textile and Apparel Sector.

IFC is uniquely placed to deliver on this ambitious Decarbonization Platform due to its strengths, which include:

(i) Unparalleled ability to reach global brands: Close working relationships with many leading brands across emerging markets, who value IFC's expertise, deep history of engagement in the space through the Better Work program jointly implemented with our partner ILO and focus on sustainable financing. These relationships have been supported over decades with IFC's experience in both investment and advisory, including through the Partnership for Clean Textile ("PaCT") approach, our Global Trade Supplier Finance (GTSF) program, direct investments with IFC and by giving the suppliers access to financing for projects which, in the absence of this intervention, would not have been developed/implemented.

(ii) Track record of Innovative financing structure and/or instruments: IFC's key value additions in this engagement include strong experience in structuring financing packages, which will result in competitively priced finance with attractive terms, and it also serves as a long-term funding solutions vis a vis its longer investment horizon and counter cyclical approach compared to most financial investors.

(iii) Decades of Experience in Climate Friendly Investments: IFC is one of the world's largest financiers of climate-smart projects in emerging markets. Since fiscal year 2005, IFC has provided more than $28 billion in long-term finance for climate-related projects in emerging markets, as well as mobilized $22.3 billion from other investors.

(iv) Packaged offer for investment and advisory: Ability to dynamically leverage learnings from implementation in one market in another part of the globe.

(v) Strong Alignment with IFC Strategic objectives: The project aims at systematically reducing carbon emissions in manufacturing, reducing Country emissions consistent with Nationally Appropriate Mitigation Actions (NAMAs). As such, the proposed Project is fully aligned with the WBG Green, Resilient, and Inclusive Development approach, and the WBG Climate Change and Development Reports (CCDRs) for the relevant countries under the Platform.

Strategic Fit with IFC

This Project is expected to create multiple engagements in the textile sector and beyond and help create and implement a solution for companies seeking to reduce their Scope 3 emissions and "green" their manufacturing supply chains. This translates into advancement of lower carbon manufacturing in the client countries in which the suppliers are located, reducing their emissions consistent with Nationally Appropriate Mitigation Actions (NAMAs). As such, the proposed Project is fully aligned with the WBG Green, Resilient, and Inclusive Development approach, and the WBG Climate Change and Development Reports (CCDRs) for the relevant countries. The approach is also aligned with the IFC Manufacturing Deep Dive and Textile Roadmap Approach ("IFC's Approach") and supports IFC's Manufacturing strategic theme of 'Greening Supply Chains', by the following: (1) Investing in sustainable production technologies in emerging markets will lead to the realization of production efficiencies and reducing GHG emissions. (2) Strengthening the supply chain connectivity to contribute to building complexity by promoting

stronger linkages in global value chains. The Project contributes to IFC's "Creating Market" approach by introducing a product that would support local suppliers to help meet the sustainable targets of a global value chain leader.

IFC continues to lead as the world's largest development finance organization in the private sector. IFC has provided over US$8.6 billion in long term financing for climate projects from its own account and in core mobilization since fiscal year 2005. In fiscal year 2022 alone, IFC delivered $4.4 billion in climate finance and mobilized an additional $3.3 billion from other sources. Climate transactions continue to represent a growing portion of IFC's financial institutions portfolio, with ambitions to grow climate-focused work to 35 percent of IFC's own-account portfolio by fiscal year 2025.

ANNEX G.1 – TERMSHEET

Annex A: Indicative Financial Terms

GEF – INDICATIVE TERMSHEET **Project/Program Title**	**Green Decarbonization Platform for Supply Chains ("GDPSC" or "Program")**
Project/Program Number	11326
Agency presenting the Project	**International Finance Corporation (IFC)**, acting as Executing Agency for the World Bank (WB), an Implementing Agency for the Global Environmental Facility (GEF)
Project/Program Objective	**GDPSC** is a global platform approach to provide financing up to US$89 million equivalent from IFC and GEF to suppliers of multinational manufacturers in an effort to reduce emissions in their global supply chains.
Country [ies]	Global
Investors	IFC will provide loans to suppliers, directly or indirectly, that meet predefined eligibility requirements. The eligibility criteria will be determined before seeking approval but would include mitigation and adaptation requirements and be required to meet IFC performance standards (including environment and social) as well as GEF requirements.
Project Financing	IFC will provide loans to suppliers for greening multinational company supply chains. IFC's loans will be de-risked with support from GEF funding structured as subordinated debt. **IFC investment: up to US$75 million as loan**s **GEF funding: up to US$13.7 million as subordinated loans** **Supplier: up to US$75 million as equity**

<table>
<tr><td></td><td>Brand FLG: US$11-15 million to de-risk IFC loans.</td></tr>
<tr><td>Proposed Co-Financing</td><td>
<table>
<tr><th>Table: Platform Co-Financing Sources of Co-Financing</th><th>Co-financier</th><th>Type</th><th>Investment Mobilized (US$)</th></tr>
<tr><td>GEF Agency</td><td>IFC</td><td>Loans</td><td>US$75m</td></tr>
<tr><td>Client (Brand)</td><td></td><td>First loss guarantee to IFC (note this is not additional liquidity)</td><td>US$11-15m</td></tr>
<tr><td>Private Sector</td><td></td><td>Equity</td><td>US$75m</td></tr>
<tr><td colspan="4"></td></tr>
</table>
</td></tr>
<tr><td>GEF Proposed Financing in the form of subordinated liquidity</td><td>US$13.7 million (net of fees) from GEF as a provider of subordinated loans</td></tr>
<tr><td>Agency Fees (NGI only)</td><td>GEF fees to agency: US$1,238,532</td></tr>
<tr><td>Total Portfolio under the Program</td><td>The total project costs are expected to be US$163.7 million with financing from IFC of up to US$75 million from IFC, GEF of up to US$13.7 million, Supplier equity of up to US$75 million, and a Brand provided FLG of up to US$15 million to de-risk IFC loans.</td></tr>
<tr><td>Co-financing and Co-Financing Ratio</td><td>GEF’s subordinated lending is an integral part of the Program of catalyzing the remaining $150 million of liquidity from IFC and supplier equity. Additionally, Brand’s FLG of up to $15 million to share exposure and backstop the IFC and potentially other lenders. Without GEF support, the suppliers would not have access critical</td></tr>
</table>

	financing from IFC and potentially other investors for the decarbonization investments. • Each GEF US$1 mobilizes US$10 of other financing from other sources • Indicative co-financing ratio for the program is 1:10x).
Currency of the Subordinated lending	USD, Euro, or local currency[15]
Currency risk	Following the above point and associated footnote, GEF subordinated investments might face currency risk.
Structure and Governance	**Structure**: Under the Program, IFC would enter into loan agreements with eligible suppliers. IFC, as implementing entity of GEF, would also enter into loan agreements aggregating up to US$13.7 of total lending exposure with the same suppliers. The subordinated debt-like instruments would be subordinated to IFC in repayment and liquidation. **Governance**: The blended finance component of the Program will manage in accordance with IFC's blended finance approach and in line with the DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects (see further detail in Annex G).

[15] GEF obligations could be structured in local currency without a hedge if needed. USD based financing would be the used whenever possible, but in cases where local currency is required and hedges are too costly, are mechanically too rigid to allow for structural advantages to GEF such as period cash sweeps, or breakage costs are too high, or there are no viable counter-parties then unhedged local currency could be offered.

Environmental & Social Safeguards	As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC's Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement.
Reporting	On an annual basis clients will report to IFC on the green qualifying investments made along with related mitigation or adaptation related indictors. On an annual basis, consistent with GEF policies, IFC will provide GEF with a PIR.
Life of the Program and associated investment projects	The life of the Program will be (20) twenty years: • Investment Period: Period for IFC to underwrite loans will be (8) years. • Loans: Underlying loans under the program will have an average tenor of 8 with the ability to go up to 16 years with potential to include a grace period. • Additional 1 year for final disbursements and accounting.
Exposure Limits	GEF's total aggregate exposure will be capped at US$13.7 million (net of fees).
GEF compensation	Interest rates will be customized on a subproject-by-subproject basis to adhere with IFC's Blended Finance principles, including minimum concessionality, but will in no case will be lower than 1.5% fixed and/or remunerated with a variable return.
Reflows	Reflows will follow the same procedure IFC uses for all blended concessional finance projects that periodically reflow capital. Consistent with GEF policy, any interest will be repaid to the GEF TF annually. In the case of GEF, as IFC works alongside the World Bank, reflows are made to the GEF Trustee account;

	IFC notifies the World Bank GEF Coordination team of the transfer.
Unused GEF Funds	Should the IFC investment window expire with excess GEF funding, the above is required to be held in place by IFC's existing legal agreements with clients, excess funding (if any) will be reflowed back to the GEF Trustee. Reflows would follow the same process as outlined above.
Cash Waterfall (Recovered Proceeds) from Individual Investment	The exact waterfall will be negotiated and determined with legal counsel. However, the spirit is that all cash inflows from sub-projects for will first be used to pay expenses, fees, and other costs. Second to flow to IFC for its principal and interest, and then third to GEF for its principal and interest. Upon a credit event, all cash flow goes first to making IFC whole on its principal and interest payments and then the remaining recoveries will be applied pari-passu to GEF's outstanding principal and interest and the Brand's outstanding guarantee capital and fee. The specific mechanism of timing and distribution of the Brand provided guarantee is still being negotiated with the Brand.[16]
Use of Concessionality	The proposed subordinated loan from GEF is a vital tool to overcome supply side market failures as a risk mitigant tool. It provides credit enhancement to IFC's investment and improves the risk in order to provide the required financing at a rate that is affordable for the ultimate beneficiaries. The "minimum concessionality" principle of Blended Finance requires that the level of subsidy should not be greater than to induce the intended investments. In line with this principle, the proposed level of First Loss is optimum to rebalance the risk-return trade-off.
Termination	The facility is proposed to last 20 years.

[16] As with any active negotiations, final terms and conditions are subject to change. The final structure will be presented before CEO Endorsement but will align with the previously stated principles of risk mitigation of 30%.

Reporting	Each borrower will provide reporting on an annual basis. Annual financial reports will be audited. IFC will report to GEF on the performance of the Program through its customary annual monitoring and project implementation report (PIR) channels.
Alignment with GEF Environmental & Social Safeguards	IFC commits to sharing the ESRS with the GEF Secretariat in advance of CEO endorsement. As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC's Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement.
Terms and conditions for the financing instruments	All use of blended concessional co-investments must meet the DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects.

ANNEX G. 2 – REFLOW TABLE

Annex B: Reflows table

Instructions. Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.17

Item Data	
GEF Project Number	11326
Estimated Agency Board approval date	1H2024
Investment type description	Subordinated loans to de-risk IFC loans and potentially other investors across the emerging markets.
Expected date for start of investment	4Q2024
Amount of GEF lending	Up to US$13.7 million (net of fees) [Min of 13.7 and 20% of IFC financing so as to jointly with the Brand reduce IFC risk to 70%
Amount of Co-Financing	GEF co-investment of up to US$13.7 million will be in conjunction with IFC's lending of up to US$75 million and supplier contributions of up to US$75 million for total project costs of up to US$163.7 million. The IFC subproject loans are also expected to be supported by a Brand provided guarantee totaling in aggregate up to US$11-15 million. GEF financing will be integral for the Program as it will allow suppliers to access financing under terms otherwise unreachable.
Estimated Return	TBD
Maturity	The Investment Platform will have a 20-year life.
Fees	Front end, commitment fees, and supervision fees will be customized on a case-by-case basis. The GEF lending floor for each subproject will be 1.5% fixed and/or a variable return, but the actual remuneration will be assessed in each case based on the risk return nature of the underlying loan and with consideration for minimum concessionality.
Repayment method description	IFC to GEF, in accordance with Financial Procedures Agreement
Frequency of reflow	• Annually for interest rates • If funding is revolved through the Facility for redeployment, no reflows would be anticipated during the active investment period. At the end of the investment lifecycle, reflows (including fees) would be made to the GEF Trustee.
First fees and interest repayment date	TBD
First repayment amount	TBD[17]
Final interest repayment date	After all the loans have been repaid, i.e., 20 years is the estimated life of the Program.

[17] Fees are confirmed during project preparation for each individual transaction.

Final interest repayment amount	TBD
Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	Total of recovery amount and unused portion of funds, if any plus interest rates for underlying projects The Program may incur losses and be unable to recover the amounts to GEF -after the waterfall is applied

ANNEX G.3 – AGENCY CAPACITY TO IMPLEMENT NGI

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as described below:

IFC Governance for Blended Concessional Finance Resources

All blended concessional finance is overseen by the Blended Finance Department. For all blended concessional transactions, IFC exercises the same standard of care when investing on behalf of donor partners as it does with respect to the administration and management of its own affairs. IFC's governance structure is aligned to IFC's blended finance principles first presented to IFC's Board in 2012 and the **Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations** adopted in 2017. More details on IFC's investment process, governance and oversight of concessional funds is available below.

Track Record and Performance in Blended Concessional Finance

IFC has been successfully deploying blended finance investments for more than a decade and is currently the largest and oldest practitioner of blended finance transactions among Development Finance Institutions (DFI's). IFC conducts blended finance operations in several thematic areas and industries globally, including to SMEs, sustainable agriculture supply chains, women-owned businesses, IDA, conflict-affected and vulnerable countries, climate change, manufacturing, and infrastructure to name a few.

From fiscal year 2010 to 2020, IFC deployed US$1.6 billion in blended finance to mobilize US$13.2 billion in IFC and 3rd party capital for 266 high-impact projects spanning sectors such as climate, SMEs, gender, and agriculture. Of the US$13.2 billion mobilized by blended finance more than half, US$7.2 billion was sourced from 3rd party capital, and US$6 billion from IFC own-account investment.

Thought Leadership on Blended Concessional Finance

As the Chair of the Development Finance Institution (DFI) Working Group on Blended Concessional Finance for Private Sector Projects, a consortium of 23 multilateral development banks and financial institutions, IFC led the development and adoption of the Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations, as described below.

Governance on Blended Concessional Finance

IFC is committed to using a disciplined and targeted approach when it comes to blending concessional donor funds with its own commercial funds. This commitment reflects a long track record and thought leadership in the application of blended finance through evidence-based learning, that encourages real-time evolution and improvements to our approach.

In 2017, IFC created a Blended Finance Department to house a team of investment and operational professionals focusing on the management and deployment of blended concessional funds. All blended finance projects are reviewed and approved by an independent Blended Finance Committee (BFC), a senior Corporate Committee, and/or the Blended Finance Director, ensuring that IFC applies best practices, balances efficiency, accountability, and transparency, and adjusts investment decisions and the

use of concessional finance based on the learning that comes from project structuring and implementation. The BFC helps to ensure that IFC can continually inform its own operations, maximize its innovation tools and resources, and provide the highest standard of governance for concessional transactions. IFC's governance structures are aligned to the Blended Finance principles (summarized below) and have been embedded into IFC documentation, training, and procedures.

Adherence to these principles and a robust governance framework, endorsed by our stakeholders, guide IFC's approach to blended finance and are required for every transaction using contributor funds. The DFI Enhanced Blended Concessional Finance Principles are briefly outlined below:

- *Rationale for Using Blended Concessional Finance.* Development Finance Institutions (DFI) support of the private sector should only contribute financing beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector.

- *Crowding-in and Minimum Concessionality.* DFI support to the private sector should, to the extent possible, contribute to catalyzing market development and the mobilization of private sector resources.

- *Commercial Sustainability.* DFI support of the private sector and the impact achieved by each operation should aim to be sustainable. DFI support must therefore be expected to contribute towards the commercial viability of their clients.

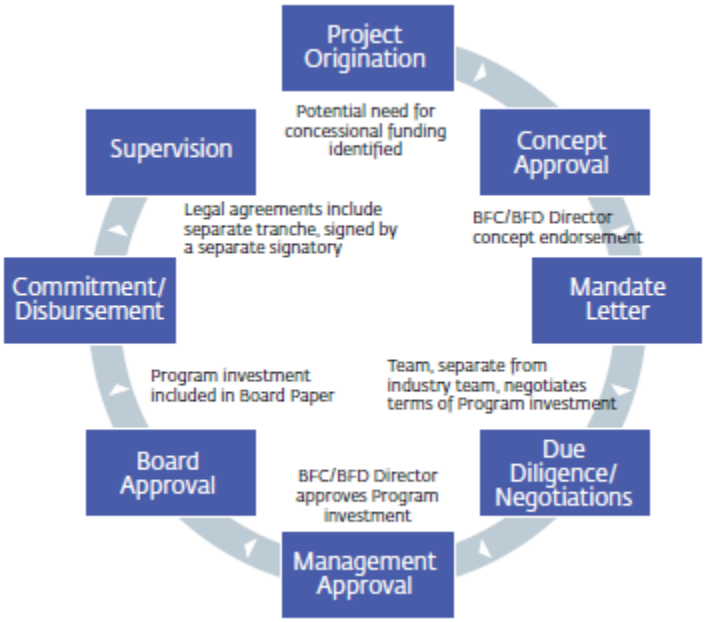
- *Reinforcing Markets.* DFI assistance to the private sector should be structured to effectively and efficiently address market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.

- *Promoting High Standards.* DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of Corporate Governance, Environmental Impact, Social Inclusion, Transparency, Integrity, and Disclosure.

Based on these principles, it is imperative that IFC's investments contribute beyond what financing is available, and otherwise absent from the market; otherwise, the transaction will not be approved by the BFC. IFC's Blended Finance Department bears responsibility for representing its donor interests as contributors within IFC's decision making processes, ensuring appropriate structuring and use of concessional finance, and managing the blended finance co-investment portfolio after projects are committed and under implementation. To this end, IFC's separate team of blended finance investment officers identify, negotiate, and structure donor funds alongside IFC's commercial financing as co-investments. After the project is committed, this team supervises the donor-funded co-investment and reports to the development partner on the project over the course of project lifetime.

Donor funded blended finance co-investments rely on and leverages IFC's operating investment cycle. The harmonized investment origination, approval process and portfolio management approach are outlined in the graphic below.

IFC Investment Cycle



a) Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;

In all projects and structures (other than for non-returnable capital structures such as viability gap funding or performance-based), there is an expectation of financial returns from principal repayments, interest payments, distributions or fees. IFC has more than a decade of experience with this process for its existing donor-funded blended finance facilities. IFC's strong financial management systems include the segregation of donor funds. The ability of IFC to accept and transfer financial returns to the GEF Trust Fund presents no issue.

b) Ability to monitor compliance with non-grant instrument repayment terms;

A core part of IFC's investment operations is to monitor compliance with investment terms across the full lifecycle of the project. Typically, for IFC donor-funded facilities, this lifecycle encompasses a five- to seven- year active investment period, followed by another 15- to 18-year supervision period, for a total of 20 to 23 years.

For all investments, IFC maintains a procedure for project initiation, oversight, and control, complete with risk assessments and monitoring throughout the life of the project. For IFC investments that utilize blended concessional finance, an additional layer of supervision and reporting exists alongside IFC's own account investments. IFC follows strong portfolio management practices for all of its projects. IFC's portfolio supervision teams actively monitor compliance with investment agreements, perform site visits to evaluate project status and to identify solutions that address potential problems.

IFC systematically tracks environmental and social performance and measures financial and development performance and results. IFC's projects and funds are closely monitored, and for projects in financial distress, IFC's Special Operations Department determines the appropriate remedial actions. The Special Operations Department seeks to negotiate agreements with creditors and shareholders to share the burden of any restructuring, so problems can be worked out while the project continues to operate.

c) Capacity to track financial returns (semester billing and receiving) not only within its normal lending operations, but also for transactions across trust funds;

IFC will implement a GEF NGI Project, an accredited Executing Agency for the World Bank Group, which is an Implementing Agency for GEF. GEF-supported investments will follow IFC's financial management and procurement policies, including financial accounting, disbursement methods and auditing. IFC will maintain separate records and ledger accounts in respect of the GEF Funds for blended concessional finance and disbursements made therein. IFC will continue to report to GEF through the World Bank, per the legal requirements agreed for earlier GEF-funded activities.

<u>IFC's mechanism / process for program-level reporting to GEF</u>
As noted above, IFC will continue financial reporting to GEF through the World Bank, following the guidance and requirements agreed for earlier GEF-funded activities.

d) Commitment to transfer reflows twice a year to the GEF Trust Fund;

Typically, reflows from IFC's blended concessional funding are either accumulated and periodically refunded to the contributor, or recycled to the Trust Fund and re-deployed in subsequent investment phases. The availability of reflows varies widely depending on the project structure and the contributor's preference. IFC will transfer any financial returns, gains or interests earned on non-grant instruments, to the GEF Trust Fund as noted in Guidelines on the Project and Program Cycle Policy. ￼

And, in case of NGI for private sector beneficiaries:

e) Track-record of repaid principal and financial returns from private sector beneficiaries to the GEF Agency.

IFC's relationship with the GEF spans over two decades, with over US$100 million in project approvals to enable private sector engagement in emerging markets. ￼ Over this period IFC has also returned almost US$42 million to the GEF, through the World Bank. GEF-supported projects are still active in our existing portfolio.

And, in case of concessional finance for public sector recipients:

f) Track-record of lending or financing arrangements with public sector recipients;

IFC's mandate is to support private sector development in emerging markets. Therefore, this criterion is not applicable to IFC's existing investment operations.

g) Established relationship with the beneficiary countries' Ministry of Finance or equivalent.

Please see section (f), above.

IFC ENVIRONMENTAL AND PERFORMANCE STANDARDS

IFC commits to sharing the ESRS with the GEF Secretariat in advance of CEO endorsement. As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC's Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement.

IFC's initial Environmental and Social Considerations Assessment noted the following (please note IFC has removed commercially sensitive and identifying client information):

> *The project is a Facility that will support sustainability investments by the strategic suppliers of [the Client]. The E&S appraisal will focus on: i) review of Client's existing E&S management system and supplier management policies and programs; ii) Client's capacity to assess, manage, enforce and supervise E&S impacts and risks of Suppliers' operations under the Project consistently with IFC's PSs; iii) determine the set of E&S screening and selection criteria to ensure only Suppliers with limited E&S risks are financed (high risk projects will be excluded); iv) assessment of inherent risks related to the apparel manufacturing sector (i.e. labor, including occupational health and safety, pollution control, forced labor, among others.). The structure and rules of the Facility for each Supplier will be determined based on the E&S risks and issues identified and the capacity of Client to manage the portfolio. Project countries: Bangladesh, India, Pakistan, Sri Lanka, Vietnam, Cambodia, China, Egypt, Turkiye, and Mexico. Contextual risks include: GBVH, labor policies, workplace exclusion and discrimination, and reprisals. A site visit and additional internal E&S capacity is required to manage the project processing.*

Following IFC 2012 Sustainability Policy, IFC identifies risks and benefits for men and women. The Sustainability Policy incorporates a focus on increasing women's participation in investments and local communities through the PS. As part of the E&S assessment, IFC expects clients to minimize gender-related risks from business activities and unintended gender differentiated impacts. For example, consultations to affected communities, as part of PS1, should reflect the different concerns and priorities of men and women about impacts, mitigation mechanisms and benefits.

IFC has also set up a robust framework to ensure that projects are aligned with a core commitment to monitoring and enforcing IFC's strict environmental and social standards. The Compliance Advisor Ombudsman (CAO) is the independent accountability and recourse mechanism for IFC, which addresses complaints from people affected by IFC/MIGA projects, with the goal of improving environmental and social outcomes on the ground and fostering greater public accountability of IFC and MIGA. CAO reports directly to the President of the World Bank Group.

IFC commits to sharing the E&S Review Summary with the GEF Secretariat in advance of CEO Endorsement. As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC's Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement.

Among the benefits of IFC's co-investment model with blended concessional finance projects is that it allows concessional investments to automatically benefit from IFC processes and procedures, including IFC's integrity, monitoring & evaluation and environmental and social or other due diligence already done for IFC-own account transactions. IFC's monitoring and evaluation is done through project supervision that is regularly performed by IFC project staff and captured in standard project monitoring and supervision reports. Climate change outcomes and impacts, such as GHG mitigation, are also captured in IFC's Results Measurement System. This model allows blended finance transactions access to monitoring and evaluation for very limited additional costs.

A summary discussion of how IFC assesses climates risks through the IFC Sustainability Framework, including a review of environmental, social, financial, operational, climate and other risks, is outlined below. Each transaction must be aligned to IFC's Sustainability Framework, including IFC's Performance Standards, to obtain approval. The Sustainability Framework and IFC Performance Standards reflect the evolution of good practice for sustainability and risk mitigation, including for supply-chain management and climate change, as well as business and human rights.

IFC Performance Standards and Sustainability Framework

Additional information on IFC's Performance Standards and Sustainability Framework has been included for the Secretariat's review. Links to IFC's Exclusion List are also included below.

IFC's Approach to ESS: IFC's approach to environmental and social safeguards is addressed comprehensively through IFC's Sustainability Framework. IFC's Sustainability Framework articulates the IFC's strategic commitment to sustainable development and is an integral part of IFC's approach to risk management. The Sustainability Framework is comprised of IFC's Sustainability Policy, the Performance Standards on Environmental and Social Sustainability, and the Access to Information Policy. IFC considers environmental and social impacts to encompass any change, potential or actual, to the physical, natural, or cultural environment, and impacts on surrounding community and workers, resulting from potentially supported business activity. These policies are designed to help IFC clients do business in a sustainable way by promoting sound environmental and social practices, encouraging transparency and accountability, and contributing to positive development impacts.

IFC's Performance Standards are globally recognized as a benchmark for environmental and social risk management in the private sector. The Performance Standards are directed towards IFC's clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. In the case of its direct investments (including project and corporate finance provided through financial intermediaries), IFC requires its clients to apply the Performance Standards to manage environmental and social risks and impacts so that development opportunities are enhanced. IFC uses the Sustainability Framework along with other strategies, policies, and initiatives to direct IFC's business activities in order to achieve its overall development objectives.

How IFC Applies the Sustainability Framework: IFC's environmental and social due diligence is integrated into IFC's overall due diligence of the business activity under consideration, including the review of financial and reputational risks. IFC considers the risks and impacts of each proposed investment or advisory activity, and whether and how such investment or advisory activity can be

expected to contribute to the development of the host country and to broadly benefit its relevant stakeholders in economic, social, and/or environmental terms.

For each project, IFC creates an E&S Review Summary (ESRS) and an E&S Action Plan (ESAP). Through the assessment IFC weighs the costs and benefits of proposed business activities and articulates its rationale and specific conditions for the proposed activity. The ESRS and ESAP are reviewed and approved by the client. IFC discloses its ESRS along with relevant sponsor E&S documentation on the IFC website. The client discloses project E&S assessment information locally. Projects will engage and consult with Affected Communities to ensure their awareness of the project and provide for an ongoing constructive relationship. For each proposed investment or advisory services project, IFC discloses relevant project information, environmental and social implications, and expected development impact. Information is disclosed prior to consideration by IFC's Board of Directors at:

https://disclosures.ifc.org/

How IFC Assesses Climate Risk: Assessing the risks of climate change is an integral part of IFC's Sustainability Framework and like a number of cross-cutting topics such as climate change, gender, human rights, and water, is addressed across multiple Performance Standards. IFC recognizes that climate change is a serious global challenge and that climate-related impacts may impede economic and social well-being and development efforts and evaluates projects accordingly. As part of Performance Standard 1, all projects IFC finances are screened for a variety of environmental and social risks and impacts. Performance Standard 1 establishes the importance of (i) integrated assessment to identify the environmental and social impacts, risks, and opportunities of projects; (ii) effective community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them; and (iii) the client's management of environmental and social performance throughout the life of the project.

Performance Standards 2 through 8 (please refer to enclosed documentation on IFC's Performance Standards) establish objectives and requirements to avoid, minimize, and where residual impacts remain, to compensate/offset for risks and impacts to workers, Affected Communities, and the environment. While all relevant environmental and social risks and potential impacts should be considered as part of the assessment, Performance Standards 2 through 8 describe potential environmental and social risks and impacts that require particular attention. The scope of the risks and impacts identification process for each project will be consistent with good international industry practice and will determine the appropriate and relevant methods and assessment tools. The process may comprise a full-scale environmental and social impact assessment, a limited or focused environmental and social assessment, or straightforward application of environmental siting, pollution standards, design criteria, or construction standards.

When the project involves existing assets, environmental and/or social audits or risk/hazard assessments can be appropriate and sufficient to identify risks and impacts. If assets to be developed, acquired or financed have yet to be defined, the establishment of an environmental and social due diligence process will identify risks and impacts at a point in the future when the physical elements, assets, and facilities are reasonably understood. The risks and impacts identification process will be based on recent environmental and social baseline data at an appropriate level of detail. The process will consider all relevant environmental and social risks and impacts of the

project, including the issues identified in Performance Standards 2 through 8, and those who are likely to be affected by such risks and impacts. The risks and impacts identification process will consider the emissions of greenhouse gases, the relevant risks associated with a changing climate and the adaptation opportunities, and potential transboundary effects, such as pollution of air, or use or pollution of international waterways.

As the practice and tools for GHG accounting are mainstreamed, IFC also requires its clients to include GHG emissions in their regular reporting to IFC, in accordance with the Performance Standard 3 quantification threshold. This will allow IFC to quantify, manage and report on the carbon footprint of its direct investment portfolio in accordance with the emerging state of practice on accounting and reporting. Estimation methodologies are provided by the Intergovernmental Panel on Climate Change, various international organizations, and relevant host country agencies.

Exclusions: There are several types of activities that IFC does not support. These activities are set out in the IFC Exclusion List, available at: http://www.ifc.org/exclusionlist.