Section I. PROJECT DESCRIPTION

1. GLOBAL ENVIRONMENTAL PROBLEMS, ROOT CAUSES AND BARRIERS

Global Environmental Problem

As one of the world's largest emitters, the travel and tourism industry has also been one of the slowest to adopt carbon mitigation measures. Part of this slower adoption can be attributed to long asset lives of most hotel properties. With a lifespan of more than 40 years for many buildings, emissions from existing infrastructure are locked in for the duration of the asset's life unless retrofits are made. According to a recent report, the industry must reduce its carbon emissions by 66 percent per room by 2030, and 90 percent per room by 2050 just to maintain current emission levels; there is an unprecedented need for systematic retrofits for existing buildings.[1] However, as the sector's revenues have plummeted and financing has dried up due to the COVID pandemic, these emissions-reduction goals for the hotel sector became even more unattainable.

The need for retrofits has been hampered by the lack of reputable green building certifications applicable to existing structures. To date, green building certification has been overwhelmingly targeted towards new construction. Certified green buildings make up a minuscule (although growing) portion of built space. Of 700,000 hotels globally, only 400 of them are LEED certified, most in developed countries. Upgrades and green, low carbon improvements to hotels have overwhelmingly been made by global luxury brands, leveraging their ability to either self-finance or leverage more favorable borrowing terms. **In sharp contrast, SME hotels, which comprise most tourism properties in emerging markets, remain almost entirely untouched by green retrofits.** Even though retrofits are cost efficient, yield annual operational cost savings of more than 15 percent per annum and often have short payback periods, the potential of retrofits has never been realized, partially due to a lack of green building financing and partially due to a lack of credible certifications that would guide property owners through efficiency investments.

Over the past 12 months, IFC has conducted extensive multi-country diagnostics and surveyed hundreds of hotels in emerging markets, to better understand the opportunities and challenges of the SME hotel segment.[2] The key takeaway from this diagnostic is the knowledge that the COVID pandemic offers a unique window to catalyze green retrofits for SME hotels, changing the emissions trajectory to place the industry on a more sustainable, low-carbon path.

SME hotels recognize the need for comprehensive upgrades in order to adapt their properties to a post-COVID era. In emerging countries in particular, sustainable tourism acts as an increasing driver of socio-economic development and job creation. As IFC identified in its extensive country diagnostic, 85 percent of hotels surveyed are interested in upgrades and/or improvements during this quiet period. **SME hotel interest in upgrades and/or improvements is mismatched with the severely curtailed lending appetite of domestic financial intermediaries, which fear rising NPLs and liquidity problems.** Further, governments incentive schemes designed to support to the sector (such as a moratorium on interest payment and accrual), often mask the lack of financing available; very few government programs allow owners to upgrade or improve their properties with the available capital.

[1] The Business Case for Sustainable Hotels, International Tourism Partnership & IFC, March 2020.
[2] A description of the Market Assessment and Stakeholder Mapping is provided under the Section "Stakeholder Engagement"

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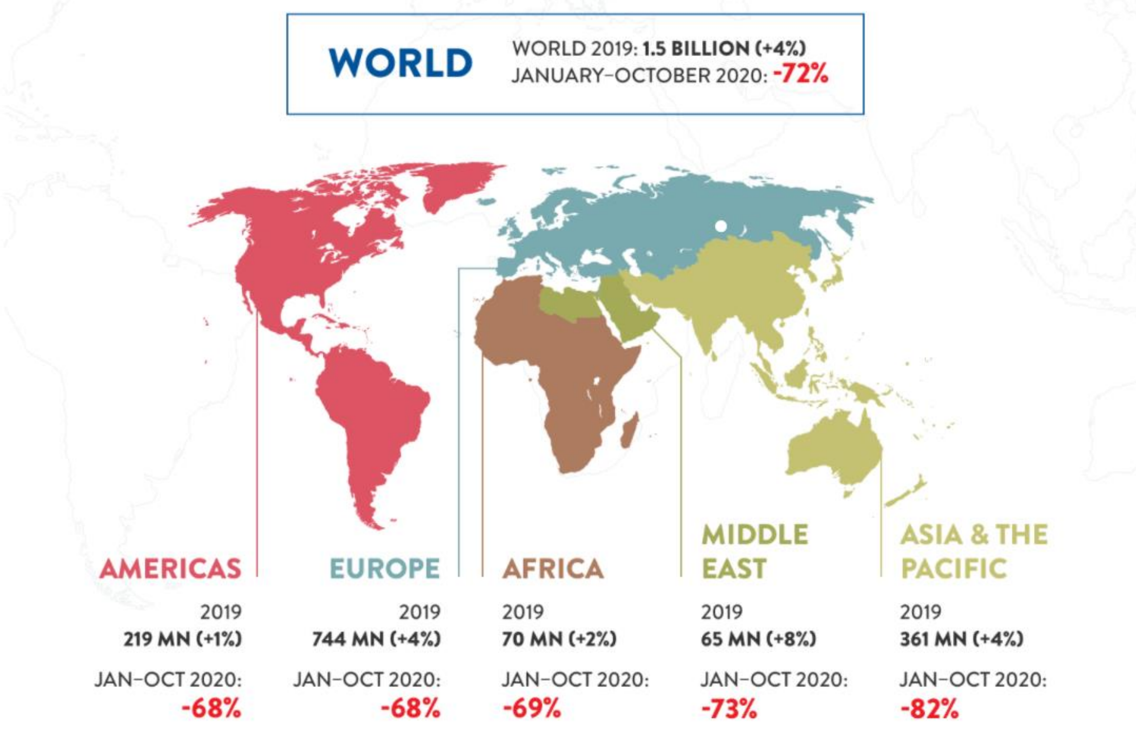
KEY TAKE-AWAY

Necessary upgrades for SME hotels present a unique opportunity to pair a counter-cyclical COVID response solution with build-back-better sustainable, green retrofit solutions. Improvements vital for business economic survival in a post-COVID era, such as improved ventilation and contactless entry, overlap with those that would enhance energy efficiency, lower operational costs and reduce carbon emissions. In many cases, these COVID-driven upgrades and green retrofits can be done simultaneously.

The opportunity to rebuild and revitalize the hotel sector comes at a critical moment. The global travel and tourism industry are in a pandemic-induced freefall, on a path to lose US$10 trillion of revenue and millions of jobs by 2025. Across the industry, no segment has suffered as acutely as the hotel sector. The World Travel & Tourism Council estimates GDP loss in travel and tourism worldwide to be US$2.7 trillion, while the revenue per available room has decreased by 67 percent in Asia Pacific hotels alone since January 2020. International tourism, measured by arrivals, dropped by more than 70 percent in 2020. Hotel occupancy has fallen as low as 15 percent in some areas.

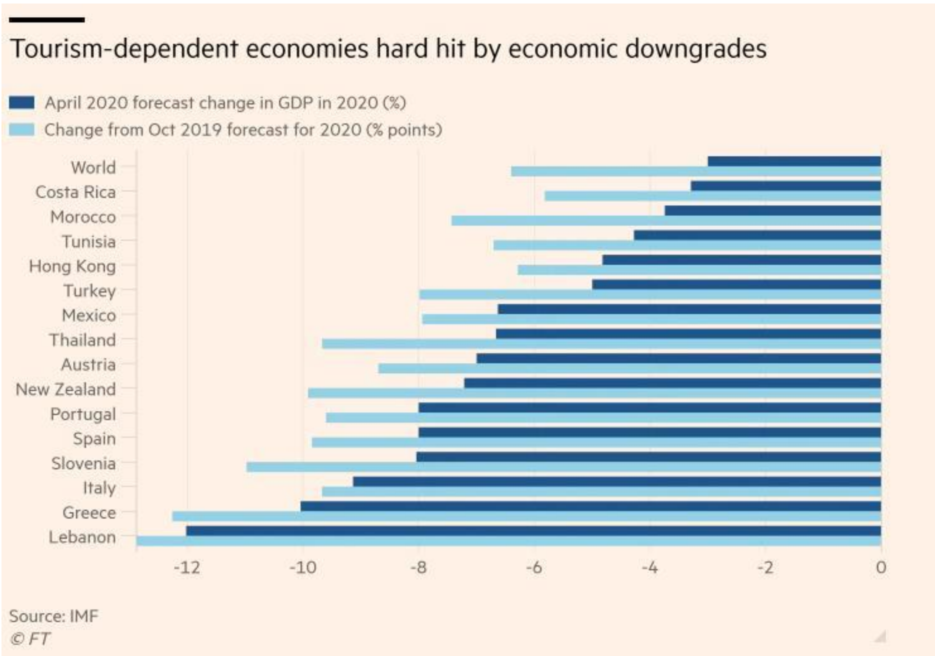
Chart 1: International Tourist Arrivals by Region (January – October 2020)[3]



[3] World Tourism Organization (UNWTO), December 2020. Available at: https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism

This economic fallout has most severely impacted the sector's small-and-medium sized hotels (SMEs), which compromise the bulk of economic activity, provide significant employment opportunities, particularly for women, but are the least likely to have access to financing to bridge the pandemic-induced economic downturn. SME hotels in developing countries are the most affected, particularly in countries were tourism makes up a much more significant portion of domestic GDP (see Chart 2).

Chart 2: Economic Impacts on Tourism



The staggering drop in revenue due to the COVID-19 pandemic has left many SME hotels in a dire credit crunch. SME hotels surveyed by IFC in 2020 had already cut staff by up to 40 percent.[4] Due to this unprecedented drop observed in hotel revenues, Financial Intermediaries (FIs) are increasingly unable to lend to the hotel sector due to the perceived risks. Even when lending is possible, many FIs are not comfortable providing tenors longer than 12 months. Although the need for immediate investment into upgrades is driven by COVID management and recovery, the macroeconomic crisis brought on by the devastation of the tourism sector provides a unique window to embed sustainable and greening ambitions into those improvements, ensuring sustainable financial and climate operations for these SMEs in the future.

In order to address the shortfall in available financing for SME Hotels and to leverage the unique opportunity to embed green retrofits into financing, **IFC proposes to create the Hotel Green Revitalization Program ("HGRP"). HGRP will be a global US$800 million facility, that will offer a comprehensive low-carbon solution specifically for SME hotel properties affected by the COVID-19 pandemic.** The program will provide medium tenor, local currency liquidity through financial institutions (FIs), providing SME hotels with the much need financing for immediate health and safety upgrades, while also ensuring longer term retrofit greening measures that will enhance their longer-term operational efficiency.

[4] IFC surveyed 273 hotels across 7 countries in 2020 in preparation for the development of this project.

HGRP will provide a customized advisory and investment package that will include complementary parallel advisory services and access and training for IFC's latest, expanded green building tool, *Excellence in Design for Greater Efficiencies 3.0* ("EDGE") that is specifically designed for green retrofits. In cases where additional local and international certifications are available that can meet the minimum energy savings of 20 percent, those certifications will also be considered for inclusion in the project by IFC Green Building Specialists.

The program's ambition is to reach 760 SME Hotels through 60 FIs across 30 countries in IDA and non-IDA markets, offsetting over 1.8 million t/CO2e.

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

(i) Unparalleled ability to reach SME hotels: Close working relationships with over 800 FIs across emerging markets, who value IFC's expertise and focus on sustainable financing and who in turn have a lending relationship with SME hotels in a particular geography.

(ii) Customized financing for each SME hotel: Ability to provide local currency financing customized to each country /market through suitable domestic FIs which enable hotels in their portfolios to retrofit and build back greener to adapt to the new business realities expected in a post-COVID environment

(iii) Tailor made tool to estimate electricity, water savings to assess attractiveness of green retrofitting: Developing and launching the first comprehensive green building certification, EDGE 3.0, available across emerging markets that is specifically geared to retrofitting existing buildings

(iv) Learning-by-doing: Ability to dynamically leverage learnings from implementation in one market in another part of the globe

This project aims to provide liquidity and preserve jobs for SMEs in the hard-hit tourism sector, while also providing a catalyst for much-needed green, energy efficient retrofits that will make a meaningful difference to the achievement of NDCs in emerging markets.

Root Causes

The Project will help to sustain hotels in good standing through this crisis so that they can participate in more stable markets when tourism business resumes. Even before the pandemic, smaller hotels were reluctant to pursue capital outlay necessary to lower operational costs and carbon emissions. Even though utilities and energy costs consume on average roughly 15 percent of a hotel's operating costs, traditionally, hotels have not pursued green buildings certification, likely because green certified hotels were not considered a driver of consumer preference. As post COVID-19, as travel resumes, customers, including business travelers, are likely to prioritize health and sustainability in their travel decision making. According to the World Travel Tourism Council report on post-pandemic tourism, 69 percent of travelers cite cleanliness & health measures as a critical component of travel brands' crisis response, while 80 percent of travelers fear potential quarantine as much as contracting the virus.[5] The pandemic has also brought the human toll on the environment into focus, as improvements in air quality and pollution have been observed after prolonged lockdowns, from blue skies in Kathmandu and clear waterways in Venice to stingrays in Dubai. This recognition of the collective responsibility and impact of

[5] WTTP Report available at: https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/To_Recovery_and_Beyond-The_Future_of_Travel_and_Tourism_in_the_Wake_of_COVID-19.pdf

humankind is expected to trigger a renewed interest in environmentally conscious and responsible travel, particularly in sustainable and eco-tourism.

This is an important opportunity to help hotel owners/operators to not only get properties ready for new social distancing and COVID-19 prevention measures, but to also make their assets more resource/energy efficient. Based on the workshop diagnostics, given the right financial support, hotels would be able to pursue these green revitalization projects. **If a targeted intervention cannot be executed within a time window, it is likely that such SME hotel properties would not be retrofitted for green design elements for the foreseeable future.**

Specific Barriers
In addition to several of the root causes to green retrofits for hotels mentioned above, there are several specific barriers that are individually contributing to the lack of financing for greener SME hotels, which are outlined below.

(1) Lack of financing for greening due to lack of risk mitigation in FI SME/Hotel portfolios
Due to COVID-19, FIs are wary of committing any loans of more than one year to hotels, particularly to independent small and medium scale hotels, given the uncertainty for recovery of travel and tourism. Any medium-term loans must be focused on revenue enhancement (e.g., rebranding). IFC's discussions with financial institutions and the hotels in the targeted countries during the diagnostic have brought to light the binding constraints being faced by the financial institutions to continue supporting hotel clients. This challenge is not the lack of liquidity but the lack of means for risk mitigation. Most hotels in FI client portfolios were well performing before COVID impacted their occupancy and their business. However, the uncertainty due to pandemic has made domestic FIs reluctant to provide additional capital without these necessary risk mitigants.

(2) Lack of availability of longer tenor, local currency financing necessary for green retrofits
Diagnostics conducted by IFC has confirmed the lack of medium-term financing and need for assistance in retrofit greening. This is particularly acute for Tier 2 and 3 cities in developing countries, where there is often a greater presence of small and medium-sized, lower-cost, SME hotels rather than luxury properties. Many of these SME hotels operate in older, less energy or water-efficient buildings, contributing to higher operating costs and negative environmental effects.[6] Among the 271 hotels that responded to IFC's market survey, 68 percent of them said that it is challenging to obtain additional debt funding and/or refinancing, while 85 percent said they are unable to find temporary relief or face stringent conditions to do so. In addition, most hotels are interested in green retrofits that yield long-term benefits, such as solar PV systems (88 percent), solar thermal systems (62 percent) and building management and monitoring systems (60 percent).

(3) Lack of technical capacity and knowledge about green buildings at the FI level

Currently, due to the risk perception created by COVID, domestic FIs are not offering loans with longer tenors and flexible payment schedules that could accommodate green retrofits, but this masks the larger barrier that FIs generally lack the necessary specialists and engineers on staff to evaluate the projects and assess the accompanying operational risks. While some domestic FIs may have done previously done industrial energy efficiency lending, they are often unfamiliar with green retrofits in the context of SME

[6] The Project will align with IFC's SME definition which us number of employees less than 300. While in line with IFC's SME definition, the Program may include eligible larger hotels with more than 300 employees but will not include any high-end luxury properties.

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hotels, including which credible local or international certifications they might accept or how they might target appropriate market segments within the tourism industry when developing a new lending product.

(4) Lack of Awareness of the benefits of green retrofits.
Many SME hotel operators remain unaware – or undervalue - the significant savings potential available from green retrofits which would be suitable for their facilities. In many instances this is due to the high perceived cost of implementing sustainable, energy efficient measures and the inability to quantify the resulting savings from such measures. The World Green Building Council's study on this 'perception gap' shows that actual cost premiums for sustainable building are significantly lower than the industry estimates or expects. The perception gap is influenced by historical data and a lack of awareness of the rapidly lowering costs of technologies today.[7]

(5) Short-term relief programs mask acute needs for flexible financing for green retrofits
Various governments have introduced schemes to support the sector through the pandemic (e.g., provision of low-cost loans to FIs to continue supporting their hotel clients over next year, moratorium on interest payment and accrual). However, these measures are essentially short-term measures that have camouflaged the lack of finance available for the sector to make targeted improvements for commercial viability in a post-COVID business environment. Most of the government schemes fail to address the medium-term problems faced by the sector, including increasing consumer preferences for newer, cleaner, greener, sustainable properties, rising electricity costs, lower projected revenues for next two to three years etc.

2. THE BASELINE SCENARIO AND ANY ASSOCIATED BASELINE PROJECTS

Business as Usual Scenario

The tourism industry represents 1 percent of global greenhouse gas (GHG) emission and historically has not had an incentive to be energy efficient. Research commissioned by International Tourism Partnerships (ITP) shows that the hotel industry must reduce its carbon emissions by 66 percent by 2030 and 90 percent by 2050 to stay within the 2C threshold agreed at COP21. Many of these can be done in alignment with green building certification requirement to address above mentioned climate goals. Historically hotels have not been interested in green certifications, and as a result penetration in emerging markets has been low. In a business-as-usual scenario that would emerge after COVID, these retrofits will likely not be implemented/financed and the tourism industry will continue to account for approximately 1 percent of global greenhouse gas emissions.

Associated baseline projects / IFC Track Record

IFC has a long history of working with domestic financial institutions to promote climate finance and working directly with hotels and SME in expansion and renovation investments.

IFC is committed to the World Bank Group goal of achieving universal access to finance by 2020. In order to achieve this goal, IFC works with about 800 financial institutions with products including investment and advisory support for microfinance, insurance, loans to small and medium enterprises and women-owned businesses, and low- and medium-income mortgages. IFC's work through financial intermediaries in more than 100 countries has helped strengthen financial institutions and systems, reinforcing responsible finance, enabling them to play a constructive role in economic growth, and introducing environmental and social standards in many clients for the first time. IFC leverages its global network of financial intermediaries to better reach SMEs. In fiscal year 2018, IFC clients, directly or

[7] The Business Case for Sustainable Hotels, March 2020. International Tourism Partnership. (p. 14).

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indirectly, were able to provide over 8 million loans to small and medium enterprises worth a total of US$365 billion, and 54 million micro-loans to individuals, worth US$74 billion. By working through local financial intermediaries, IFC can support far more micro, small, and medium enterprises than it would be able to reach on its own.

In climate, IFC has worked with162 financial institutions in 57 countries through 200 climate projects, providing over US$8.6 billion in long term financing from its own account and in core mobilization since fiscal year 2005. 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.

Our expertise and advice help our clients address systemic issues such as risk management, corporate governance, and the introduction of environmental and social standards. We also encourage financial institutions to become more involved in strategic sectors that are important to development, including women-owned businesses, trade finance, climate change, and agri-finance, and underserved regions such as fragile and conflict-affected states.

IFC & Tourism

Since 1956, IFC has invested over $2.8 billion in over 260 projects in the Tourism sector in 89 developing countries with more than half of these investments in frontier countries. IFC investments promote development of critical infrastructure in places where there is often a shortage of business class hotels for potential investors. They send a positive signal to other investors and mixed-use hotel, commercial and real estate complexes create venues for international conferences, and basic infrastructure like roads, power, and telecommunications in leisure destinations. According to the World and Tourism Council, every dollar spent on travel and tourism generates over three dollars of economic output. Over 100 million workers are employed in this industry worldwide, and tourism revenues account for more currency flows to developing countries than all aid flows from foreign donors.

IFC & Green Buildings

IFC has also been at the front of financing and providing technical advisory for Green Buildings, with a focus on new construction. IFC provides clients with investment support and advisory services to facilitate the development of resource-efficient buildings. Direct investments are made in green homes, hotels, shopping malls, warehouses, light industry and hospitals. With a cumulative investment portfolio in green buildings topping US$4 billion dollars, IFC demonstrates the potential for financial success in the sector within emerging markets.[8] Thus, IFC is uniquely positioned to promote retrofit greening in the SME segment of the hotel industry, by working with domestic financial institutions to reach many more hotels (small and large) in emerging markets with necessary capital for the sector to revive while also incentivizing them to become retrofit green buildings – i.e. helping sector "build back greener".

In addition to direct investments, IFC has pioneered the innovative tool, Excellence in Design for Greater Efficiencies ("EDGE"), which has grown to an internationally-recognized green building certification standard. Created in 2014, EDGE responds to the need for a measurable and credible cost-effective solution to prove the business case for building green and unlock financial investment in emerging markets. EDGE's cloud-based platform calculates the cost of going green and utility savings, simplifying the design and certification of resource efficient and Zero Carbon buildings. Buildings certified to the EDGE standard reach at a minimum standard of 20 percent savings in water and materials.

[8] IFC and Green Building Data, https://edgebuildings.com/about/ifc-and-green-buildings/

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To date, EDGE has certified more than 18 million m^2 worldwide.[9] **To support this project, IFC has updated the EDGE certification tool to EDGE 3.0, providing the capability to retrofit green buildings through certification and adaptation**. This capability currently does not exist in most emerging markets as it is difficult for any building to change its facade which is a significant component of total energy consumption in the building.

IFC is building on its past experiences in real and financial sector to address the issues around climate change and crisis response for the most affected sector of COVID-19 i.e. Tourism, through a combined offering of investments, technical assistance at the micro and macro level to help the sector "build back greener". IFC resources allow it to present a first-of-its-kind product in the financial market for the hotel industries, which is typically seen as too risky from the other market participants.

[9] For more information about the EDGE Standards and certificate levels, see https://edgebuildings.com/

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3. PROPOSED ALTERNATIVE SCENARIO and OUTCOMES

Proposed Program Approach

The Hotel Green Revitalization Program aims to support SMEs, specifically targeting small and medium hotels adversely affected by the COVID-19 pandemic, to provide medium tenor, local currency liquidity through financial institutions (FIs) while simultaneously incentivizing retrofit greening of their facilities. The project will benefit from a comprehensive package of IFC advisory and investment solutions, including the deployment of the newest green building certification, EDGE 3.0, that has been calibrated to retrofits.

Objective

The objectives of the Hotel Green Revitalization Program will be to execute a global platform approach that will provide risk mitigation on a portfolio of up to US$800 million equivalent to be created by local banks for eligible hotels in order to achieve the following:

(i) **Promote a Build-Back-Greener Recovery through a meaningful counter-cyclical COVID crisis response for SME hotels in emerging markets:** The tourism industry represents 1 percent of global greenhouse gas (GHG) emission and is generally not energy efficient. Research commissioned by International Tourism Partnerships (ITP) shows that the hotel industry must reduce its carbon emissions by 66 percent by 2030 and 90 percent by 2050 to stay within the 2C threshold agreed at COP21. Many of these improvements overlap with those needed to better adapt to a post-COVID business environment, including better ventilation systems, contactless check-in, etc). Many of these can be done in parallel with green building certification requirements that will address the above-mentioned climate goals.

Discussions with domestic FIs and hotels during the diagnostic have brought to light the binding constraints being faced by the financial institutions to continue supporting hotel clients. This challenge is not the lack of liquidity but the lack of means for risk mitigation. The majority of hotels in their portfolios were well performing before COVID struck. However, the uncertainty due to pandemic has made financial institutions reluctant to provide additional capital without necessary risk mitigants. Hotels typically do minor renovations every five years. Based on an industry survey, 76 percent had 'plans to renovate' before COVID. With suitably customized financing from domestic FIs, the hotels could utilize the lull in business to do green retrofits to emerge in a post-COVID business environment with a robust, lower cost business model. Incorporating green retrofits will contribute to energy efficiency gains and provide operational savings that will better enable hotels to survive the likely reduction in revenue induced by the pandemic. In addition, by working through domestic FIs, IFC will have access to much a larger, aggregated pool of SME hotels, offering the opportunity for additional synergies, such as convening hotels for shared facilities demanding large scale capex retrofits such as solar PV or water desalination facilities**.** This objective will leverage IFC's new EDGE 3.0 tool and benefit from upfront upstream work done by IFC to assess the feasibility of the platform.

(ii) **Preserve & create jobs through green retrofits in the tourism/traveector**: Prior to the start of the COVID-19 pandemic, the hotel sector employed one person in every 11 jobs around the world. As the sector is projected to lose up to US$10 trillion by 2025, most of those jobs are now at risk. The Project will help incentivize the hotel owners/operators to not only get the properties ready for new social distancing /COVID19 measures, but also make their assets more green and resource/energy efficient. As

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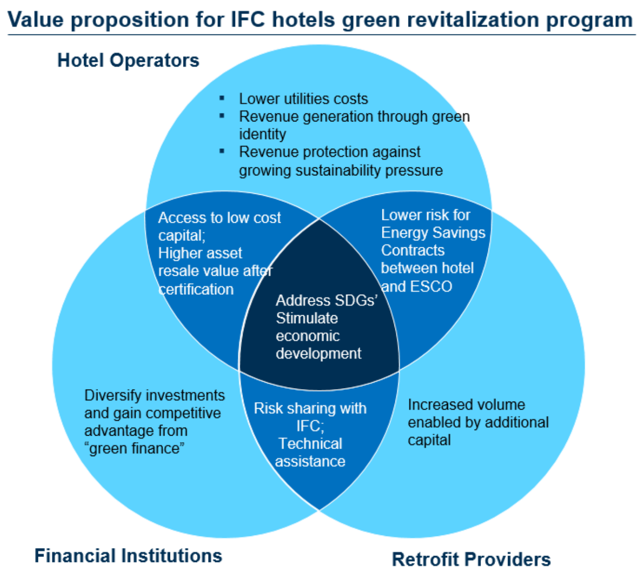
the hotel business adjusts to a new post-COVID normal, such investments will be instrumental to make their business more robust and sustainable as the economy recovers, providing additional opportunities to preserve jobs. Enhancing energy efficiency would also positively impact the local SME value chain, including developers, contracts and equipment supplies, which would ultimately support this retrofitting.

Chart 3: HGRP Value Proposition



Investment Thesis

The Hotel Green Revitalization Program is a global portfolio approach that will provide risk mitigation on a portfolio of up to US$800 million equivalent, as an unfunded facility with 50:50 risk share facility (RSF) with IFC, backed by pooled first loss from donor partners, to local banks to support the hotel industry "build back greener", across emerging markets tourism-dependent economies.

The HGRP investment would take a form of Unfunded Risk Sharing Facility backed by a funded pooled first loss (PFL) structure to enable them to support hotels and other SMEs which will help with the green retrofitting. The RSF with participating FIs will be complemented by advisory on RSF product and EDGE 3.0 for retrofits. Based on the IFC's diagnostic and scoping exercise, investments are anticipated to be no more than US$50 million for each country.

The 30 priority countries chosen for this initiative were selected after a year-long survey of the hotel industry and based on a matrix including the country's economic reliance on tourism; prevalent of small to medium sized hotels and countries with significant emissions factors where renovations would have the highest savings potential from greening measures.

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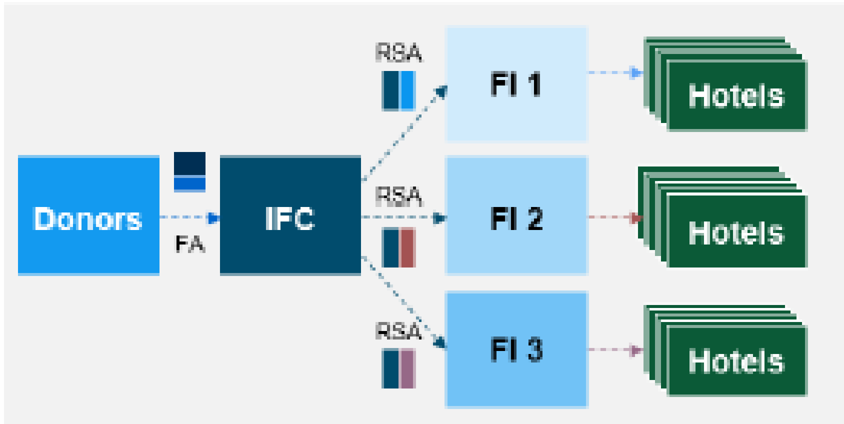
Diagram 1: Unfunded RSF structure



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Investment Eligibility Criteria:[10]

- First Loss from GEF through the Trust Fund will be allocated upfront to provide full risk mitigation to IFC. First Loss from GEF of US$9.1 million (net of fees) is expected to supplement an additional first loss amount mobilized from other climate donors.[11]
- IFC's Risk Sharing Facility (RSF) is expected to be up to 50 percent of the US$800 million SME hotel loan portfolio under HGRP. The sizing of the first loss for each domestic FI will be driven by the risk parameters of the underlying portfolio. The HGRP portfolio is expected to be higher risk than a multi-sector portfolio created by a domestic FI due to exposure to a single industry leading to higher correlation. Diversification of portfolio across 30 countries will mitigate the concentration risk.
- The PFL guarantee 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 on RSF to the FIs and make it feasible for the domestic FI to offer medium term lending of up to 5 years products to SME hotels which would create a portfolio of green retrofits. The maturity of 5 years was determined based on an average exposure of 3-4 years, with the green retrofit taking approximately 24 months.
- The Program seeks to enable hotels that are willing to commit to greening over a 18-24-month period, to access longer tenor capital, which can initially serve for COVID induced liquidity purposes, with the assurance that over 24 months, the hotel would make the necessary investment to achieve green building certification which can either be EDGE, LEED or any local country green building certification acceptable to IFC (verified by IFC Green Building specialists to meet the minimum energy savings of 20 percent).
- After a portfolio of green retrofits has been created, the extent of losses (i.e. risk versus the program design) would be crystallized after the program matures.

Hotel eligibility under the HGRP RSF:

Hotel selection and eligibility.

Individual RSF sub-projects for each country will be evaluated and hotel selection criteria may be tailored accordingly. The indicative selection criteria of hotels under the Program would include:

- **Commitment to green retrofitting:** The hotels should be willing and capable to undertake green retrofitting. The advisory team (specifically, Climate Finance and EDGE) is prepared to provide capacity building workshops and trainings for FIs to help them assess whether the hotels in their pipelines can do retrofitting. There is a requirement of regular quarterly reporting from the FIs on the status of hotels undertaking such actions in FIs' respective portfolios.
- **Financial standing in good order as of March 2020:** The hotels should have been in good financial standing before the COVID-19 crisis (March 2020), and current on their repayments of loans to the domestic FI for at least 12 months before March 31, 2020.

Targeted SME Lending with specific requirements: Projects should meet the definition for IFC SMEs (fewer than 300 employees). Luxury hotels, which typically include high-end 5-star properties, will not be eligible under the Program. All participating hotels must be willing and capable to undertake retrofitting. The hotels could utilize the loans for meeting immediate or medium-term liquidity. Over a 18-24 month period of taking a loan from a domestic FI, the SME hotel would covenant to achieve green EDGE 3.0

[10] Preliminary criteria will be refined further as the project moves towards commitment
[11] Names of additional donors are kept confidential.

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certification. Hotels that fail to undertake such certification requirement within 30 months will be removed from the RSF portfolio of the FIs and IFC would no longer be covered for such hotels from pooled first loss funds provided by donors. Any losses in the interim in the portfolio, i.e., from the time a SME hotel loan originated by a domestic FI until the 30-month period would be covered only if the hotel is able to submit proof of having started the EDGE 3.0 certification, or other local or international certifications judged to meet a minimum energy savings of 20 percent.

Proposed Risk-Sharing Facility (RSF) Structure & Operations

The proposed program structure of the RSF is described below. Through this project, IFC expects to create a scalability, transformational structure capable of reaching 760 SME hotels through RSFs with 60 FIs across 30 countries in IDA and non-IDA markets.

a. Streamlined process for onboarding for Financial Institutions:

- **Existing IFC clients**: These financial institutions will follow a simplified process where the approval is streamlined. This will allow smooth onboarding to the program.

- **New clients**: These financial institutions will go through the standard IFC due diligence and approval process.

b. IFC's Business Support Unit will monitor the portfolio and program performance through these reports, to verify compliance with the program's requirements including reporting and fee payments.

c. Advisory Services will encompass:

(i) Financial Institutions:

- IFC provides technical assistance/capacity building for FIs green retrofit measures for their hotel portfolio. In addition, IFC Advisory on RSF implementation and utilization will also be provided to clients which are new to IFC's RSF product

(ii) Hotel (as needed):

- IFC provides capacity building for hotels on greening (e.g. environmental standards, green building principles)
- Hotels leverage IFC's EDGE advisory tool to evaluate options for hotel retrofit towards energy and water efficiency which could result in necessary energy cost savings to be eligible for green building certification.
- Hotels plan and implement green hotel retrofit to meet certification requirements within two years of receiving financing, as required as commitment mechanism in the FI's loan agreement with hotels

Role of GEF Concessionality

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 buildings have existed for decades, to date there have been no systematic industry interventions 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 a first loss, risk sharing structure, providing projects some, but not complete, coverage against underperformance on a portfolio of green retrofitted SME hotels

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originated by local FI clients. 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 retrofits proceeds.

Role of IFC

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

Beneficiaries

The ultimate beneficiaries of the concessionality are underlying businesses in countries to which the banks extend loans. The embedded subsidy under the project will thus benefit hotels and support jobs in this sector. The concessional de-risking provided by the first loss structure will also benefit banks in countries by providing them risk mitigation tools to extend liquidity and support their portfolio clients and avoid NPLs at the time when the banks are facing large credit risks. SME hotels will further benefit from the program's lending that will allow business to retain employees who would have otherwise been terminated due to the macroeconomic slow-down.

Project Outcomes/Outputs

During the investment period, IFC aims to achieve the following outcomes and outputs, as indicated below.

Component 1: Provide comprehensive, rapid COVID response by jump-starting climate sustainability lending in the hard-hit hotel sector

Provide medium-term, counter-cyclical liquidity and necessary risk mitigants to FIs to provide to SME hotels with green retrofit lending as they recover from crisis.

Output 1.1: Provide climate financing for green retrofits to 760 SMEs hotels through approximately 60 Financial Intermediaries across more than 30 countries

The project would target support to SME hotels adversely affected by the COVID-19 pandemic, providing medium tenor, local currency, counter-cyclical liquidity for green retrofits through up to 60 financial institutions (FIs).

Output 1.2: Launch new green lending product that can ensure measurable job preservation in hard-hit Travel & Tourism (hospitality) Industry

The hotel sector employed 1 in every 11 jobs in the world before the COVID-19 pandemic. The majority of these jobs are at risk due to the crisis. Given that, the majority of jobs in the hotel sector are at risk due to the pandemic, the Program's immediate job-related claim is to sustain existing employment by bridging business through green retrofit lending. Additional jobs are likely to be created or sustained in the supply chain of hotels, including by suppliers, tour operators, etc.

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A methodology to account for "jobs preserved" is outside IFC's standard metrics of "job creation". A revised methodology is being designed with IFC's AIMM team and a full methodology will be proposed prior to CEO Endorsement.

Output 1.3: Support green retrofit investments that offset 1.8 million tonnes of CO^2 across 30 countries. Support energy efficient, sustainable retrofits that bundle energy and water efficiency with immediate modernization needs, including incorporating efficiency upgrade projects to lower the operational costs, such as installation of solar photovoltaic (PV) system for electricity, installation of solar thermal system for water heating, building management and monitoring systems and chiller systems; Enhancing energy efficiency would also positively impact the local value chain and SMEs.

Output 1.4: Grow awareness of EDGE 3.0 as creditable certification tool for green building retrofits in emerging markets[12]

Through the new EDGE Retrofit, launched in 2021, EDGE certification will be provided for the first time for existing buildings. This provides an opportunity for existing hotels to participate in the EDGE program to improve their building's sustainability performance and get certified as a green building, while at the same time demonstrating to other hotels the opportunities and benefits of EDGE and other green building certification for retrofits. The project will offer EDGE 3.0 training, however any national or international green building certification that is judged to be sufficiently robust, meeting a minimum standard of 20 percent energy savings off the baseline, may be used as an eligible certificate.

Component 2: Knowledge Management: Aggregate Lessons Learned to Disseminate to SME Hotels and FIs Beyond the Program's Immediate Reach

This component will ensure that lessons learned from previous experience with FIs and with the use of the EDGE tool are deployed to other financial institutions in the sector. This will begin with a series of workshops to market participations, including both FIs as well as the hotel clients. In collaborate with the EDGE team, FIs will invite their hotel clients for an introductory session on EDGE. The session will show how hotel properties should use EDGE to identify needed retrofit options, implement technical solutions, and later apply for the EDGE certificate. The session will also cover technical assistance options to hotel clients. Discovery Workshops will be followed by 1-1 technical support to the hotel clients, as appropriate which will be delivered by an EDGE expert. One or more Experts will be mapped to each FI client in order to offer the best in-country expertise and to act as the representative for the client. The hotel clients will also receive support from the EDGE Certification Partners, as part of the normal certification process.

The EDGE team can continue to provide as needed, "light touch" clarification on technical questions, or on eligibility criteria. EDGE team will also continue to oversee the performance of the program, the results and act as global reporting function.

[12] EDGE 3.0 will be the standard certification offered under HGRP; additional local and international certifications that can meet the minimum energy savings of 20 percent can also be considered for inclusion by IFC Green Building Specialists, if they are considered sufficiently robust.

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Outputs: Ensure FIs and their hotel clients receive technical assistance and benefit from lessons learned from earlier FI engagements.
As the technical assistance will follow the FI scale up, the ultimate ambition will be to deliver technical expertise in parallel with to each HGRP investment client. The final targets for this component will be dictated by the level of green building awareness of the client, the country and the available budget. Lessons and learnings from these targeted 760 SME hotel investments will be disseminated through industry groups, travel and tourism partnerships and ensure that other national banks are made aware of the business case for green buildings and introduced to the resources that will allow them to launch additional green building financing products.

<u>Monitoring and Evaluation Plan</u>

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. 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. This response has also been included in Table B.

<u>*IFC Governance for Blended Concessional Finance Resources*</u>

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 in the following Annex C.

<u>*Summary of Project's Suitability for GEF Non-Grant Instrument (NGI)*</u>

This project has been designed to align with the specific selection criteria of the GEF-7 NGI Program. Box 1 summarizes the proposed project's alignment with that criteria.

Box 1: Eligibility for GEF NGI Funding

<u>(i) Scalability</u>	This program is designed to be scalable globally, commiserate with the scale of the crisis and the necessary financing response to adequate bridge SME hotels through the pandemic and provide the necessary combination of financing and advisory services to promote sustainable green retrofits. The pipeline for this Program

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	encompasses more than 30 countries (see Annex D). Additional countries may be added in later phase. In each country, IFC would anticipate engaging with 1 to 2 financial intermediaries. The pooled first-loss structure has been designed to provide efficiency and flexibility across multiple countries, ensuring seamless scalability as additional countries are added.
(ii) Appropriate and enhanced co-financing ratios	Supporting a portfolio of up to US$800 million portfolio (indicative leverage of up to approximately 1:80x for the program and 1:40x for the private sector financing). Focus on SMEs, excluding larger hotels and luxury properties will ensure lending is targeted to the highest-need segments. With GEF offering risk mitigation as an anchor donor, additional investors and/or donors may be added to the project, enhancing leverage. IFC anticipates that direct financing enabling hotels to weather the immediate COVID crisis and could enable future lending from domestic FIs and higher indirect mobilization in the future.
(iii) Attractive financial terms	FI-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 Termsheet with additional details can be found in Annex A and a summary of anticipated reflows in Annex B.
(iv) High Financial and Non-Financial Additionality of GEF	This program provides financial and non-financial additionality to participating FIs in IDA and non-IDA countries. The **financial additionality is** related to counter cyclical provision of capital for FIs during and after the COVID-19 pandemic that incorporates innovative commitments from hotels to pursue green retrofits. The needed financing will enable FIs to continue to provide and sustain financing to the hotels including SME hotels that are adversely affected by the pandemic. The **non-financial additionality** relates to capacity building to create markets for retrofit green buildings. The standards, and tools for green building certifications currently only exists for new constructions in emerging markets. With the enhancements to EDGE in 3.0 version, the tool will be able to estimate and certify retrofit green buildings. GEF concessional funds will be provided in a unique package together with access to the EDGE tool and complementary IFC technical assistance to participating FI's (and hotels, as needed) that provides end-to-end support and additional assurance that the program will progress and report as anticipated. Concessional finance may be one of the only ways to unlock the needed counter-cyclical financing, overcoming FI reluctance to lend

	to the SME hotel segment for retrofit greening projects, the lack of familiarity with green buildings and the higher costs or lack of availability of financing for SMEs. Given the perceived risks, the lack of diversification for the FIs for these types of loans, risk sharing fees for this model are too high to be commercially sustainable and without concessional funding. Further, GEF provides unique additionality for this project; IFC does not have access to another source of concessional funding that can support both an RSF structure as well as the global ambition of the project to scale across 30 countries.
(v) Capacity to generate reflows	All projects will be structured as returnable capital. IFC anticipates that any transfers of reflows, repayments or other associated fees would occur annually in line with IFC's standard reporting to GEF. Expected reflows are summarized in Annex B.
(vii) Innovative financial solutions	The project's innovative financial structure is distinguished by (i) unique structure enabled by a risk sharing facility to incentivize greening of SME hotels across emerging markets (ii) EDGE 3.0 tool developed for retrofitting existing buildings to meet energy efficiency standards, making IFC a leader in the green retrofitting market. While RSF product is not new to IFC, but it has been rarely deployed in the SME space. This structure, relying on a coverage for risk mitigation for greening, will be a first for IFC. Additionally, IFC generally uses RSFs in a sector agnostic format, this will be one of the first times, IFC will accept a sector specific mandate, heightening the amount of risk IFC accepts. Lastly, EDGE 3.0 is a new tool which was designed and deployed alongside this Facility in order to create a market in developing countries for retrofit greening – this does not exist. EDGE 3.0 will be made available to every client, but HGRP can incorporate other national or international certifications that are verified to be sufficiently robust.
(vii) Global Environmental Benefits	The program will target carbon emissions reductions of 1.8 million tCO_2 from a diversified portfolio of 760 SME hotels in 30 countries (14 IDA and 16 non-IDA) implementing retrofits. EDGE 3.0 certificates validate minimum savings of 20 percent energy savings from baseline.[13] Although the credit lines of domestic FIs are expected to be up to 5 years, the green retrofits would be expected to keep producing environmental benefits from electric and water savings well beyond the 5-year period. Assuming a 20 year life of the green retrofits made possible by the GEF first loss tranche, this would translate into more than 1.8 million tCO_2 savings from financing green retrofits undertaken by SME hotels.

[13] 20 percent savings on energy and water use is the minimum EDGE standard for certification. Some SME hotels may choose to acquire more advanced certificates that reduce carbon emissions further. Additional information on advanced EDGE Certifications, including EDGE Zero, can be found at: https://edge.gbci.org/certification

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4. ALIGNMENT WITH GEF FOCAL AREAS and/or IMPACT PROGRAM STRATEGIES

The Project aims to support the objectives of the GEF Non-Grant Instrument and the successful engagement of GEF-7 with the private sector to engage in innovative technologies and business modes that can yield global environmental benefits consistent with GEF focal area objectives. The Platform is fully consistent with GEF-7 Programming Directions to tackle the major drivers of environmental degradation and to achieve systems change.

Specifically, the Platform is fully aligned with the **GEF Climate Change Impact Program to Climate Change Focal Area**, including the three fundamental objectives in GEF-7 Programming Directions: (1) "Promote innovation and technology transfer for sustainable energy breakthroughs"; (2) demonstrate mitigation options with systemic impacts; and (3) foster enabling conditions for mainstreaming mitigation concerns into sustainable development strategies. Further the Platform is complementary to other climate finance programming, building on the GEF's long-standing track record of driving innovation and funding demonstration and pilot activities that are too early in the market adoption chain to be within the reach of other providers of environmental finance.[14]

Specifically, in line with GEF-7 Strategy objectives to promote innovation and technology transfer for sustainable energy breakthroughs, the Platform is strongly aligned to:

Accelerating Energy Efficiency Adoption: The Platform creates opportunities for available energy efficiency technology and proven approaches to be adopted more broadly and ensures energy efficiency policies, measures, and technologies are able to reach their full potential for a previously underserved sector.

And secondarily with the entry point of **Clean Tech Innovation.** This project fosters technology deployment, dissemination, and transfer through entrepreneurship and emphasizes partnership with the private sector and promoting innovation in energy, water, and buildings

The project also aligned to GEF's **Sustainable Cities Impact Program**, addressing both the short-term and long-term climate challenges in the rapidly growing urban sector by providing low-emissions infrastructure, as well as supporting the availability and familiarly with key new urban planning tools, such as credible green retrofits for existing buildings through EDGE 3.0.

5. INCREMENTAL/ADDITIONAL COST REASON AND EXPECTED CONTRIBUTIONS FROM THE BASELINE THE GEFTF AND FINANCING

Incremental Cost Reasoning

Investments continue to be hampered by market barriers mentioned prior, including, lack of affordable financing that that has made it difficult for SMEs to make upgrades and improvements, even when the potential benefits are high. This barrier is not merely a question of liquidity, but of the availability of appropriate derisking tools. Given the heightened risk environment induced by COVID-19, it is increasingly difficult to provide financing at a price that is both viable for vulnerable businesses and appropriate given the risk level. In this context, the likelihood of participants benefitting unreasonably from the subsidy is generally low. Over time, as the pool of RSFs reaches the limit and actual

[14] GEF-7 Programming Directions. GEF/R.7/19, Section 113, p. 36. Available in full at: https://www.thegef.org/documents/gef-7-programming-directions

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performance data accumulates, IFC will consider adjusting the first loss percentage on the HGRP pool downward by adding new facilities without increasing the first loss. GEF's financial contribution to this innovative project is critical for its success. Without the protection provided by the donor tranche, the pricing for this project is not viable.

6. GLOBAL ENVIRONMENTAL BENEFITS

Direct Benefits

A summary of environmental benefits from IFC's indicative model are included below:

Table: Indicative Environmental Benefits

Preliminary analysis from IFC economists indicates that among a diversified portfolio of SME hotels in IDA and non-IDA countries, a mix of retrofits that would achieve a baseline of 20 percent energy savings (the minimum required by EDGE 3.0 certification), would result in a portfolio of approximately 760 retrofitted, certified SME hotels generating an aggregated carbon savings of approximately 1.8 million tCO^2e (equivalent to 88,832 t CO2e per year). Retrofits considered for this preliminary model include the addition of solar PV, solar thermal water heating, upgraded chilling and efficient lighting.

The Platform is also expected to have significant indirect impacts in addition to carbon savings. These co-benefits include (i) preservation of jobs; (ii) preservation of businesses negatively impacted by the pandemic; (iii) significant, measurable water savings, which is also an integral part of EDGE 3.0 certification.

Pollutant	Expected Annual Savings/Emissions Avoidance	Unit
CO_2 emission avoidance	1,776,640	tCO_2e/initial Platform investments

IFC would plan to incorporate these findings and adjust the environmental metrics accordingly. Environmental and financial impacts will be recorded through FI reporting agreements and reported to GEF

7. INNOVATION / SUSTAINABILITY AND POTENTIAL FOR SCALING UP

(a) Innovation

While RSF product is not new to IFC, it has been rarely deployed solely in the SME space. In addition, this dual mandate project structure, relying on a coverage for risk mitigation for greening, will be a first for IFC. The project is also innovative in that IFC generally uses RSFs in a sector agnostic format, this will be one of the first times, IFC will accept a sector specific mandate, targeting green buildings. This heightens the amount of risk that IFC is willing to accept in order to achieve greater environmental impact. Lastly, EDGE 3.0 is a new tool which was designed and deployed alongside this Facility in order to create a market in developing countries for retrofit greening – this does not currently exist.

(b) Sustainability

If the Program is successful, it will demonstrate that investing during COVID-19 and retrofitting greening hotels, including hotels in lower income countries, is a both a business opportunity and commercially viable segment. The Program will contribute towards sustainability of the hotel sector with the introduction of new standards, certification and tools to support retrofit green buildings. This would play a key role in enabling the adoption of green building practices/certification by hotel properties across several markets where the penetration rates are currently small and limited to new buildings only.

GEF funds will be allocated upfront to the Program, but individual drawdowns will happen as each project is committed. Hence, concessional funds will remain in the first loss pool to be re-allocated to future projects and drawdowns are expected to be less overtime. As banks become more comfortable with the risks of lending to hotels as they recover from COVID-19 and their risk perception decreases over time, as well as the anticipated revival of the sector overtime, a guarantee would be no longer required to on-lend and the sector can continue to benefit from green retrofitting with no subsidy requirement.

(c) Scalability

This program is designed to be scalable globally, commiserate with the scale of the crisis and the necessary financing response to adequate bridge SMEs through the pandemic and provide the necessary combination of financing and advisory services to promote sustainable green retrofits. The pipeline for this Program encompasses 30 countries (see Annex D). Additional countries may be added in later phase. In each country, IFC would work with 1 to 2 financial intermediaries.

The pooled first-loss structure has been designed to provide efficiency and flexibility across multiple countries, ensuring scalability and portfolio diversification.

Section II. STAKEHOLDERS

The travel and tourism industry is diverse, geographically dispersed and has numerous national, international and civil stakeholders across the public and private sector. These include, but are not limited to:

- **Private sector companies,** banks, funds, business owners, property developers
- **Technology developers**, engineering companies, engineering firms, energy efficiency equipment manufacturers, etc.
- **International green building organizations, including EDGE, LEED, BREEAM**
- **Government ministries**, including tourism bureaus
- **Civil Society Organizations (CSOs)** and **Non-Government Organizations (NGOs)** that provide input or represent the priorities of sustainability, sustainable tourism and eco-friendly properties

IFC and the World Bank Group have extensive networks and active consultations with the majority of the industry's stakeholders. In the initial phase of the Platform, the focus will be to operationalize and demonstrate the commercial sustainability of green retrofits for the tourism industry. As the Project establishes its efficacy, it will refine its offering knowledge management events with relevant NGOs and civil societies, which will be able to offer further guidance on potentially available technology offerings. Learnings from these knowledge events will be adopted by the Platform accordingly and disseminated to the larger industry group. The team has also engaged with World Bank, Creating Market Advisory colleagues working in the tourism space to ensure lack of overlap in the scope of projects and confirm

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complementarity which has enhance the value addition from this platform to help the hotel sector recover from COVID-19 and also move towards greening.

The team is also working with external partners like UNWTO and Booking.com to ensure that the solution is holistic. As the leading international organization in the field of tourism, UNWTO promotes tourism as a driver of economic growth, inclusive development and environmental sustainability and offers leadership and support to the sector in advancing knowledge and tourism policies worldwide. UNWTO's membership includes 159 Member States, 6 Associate Members and over 500 Affiliate Members representing the private sector, educational institutions, tourism associations and local tourism authorities. UNWTO has been supporting this program through its advocacy work to create awareness on benefits of retrofit greening. As part of this partnership, UNWTO has been holding webinars targeting the tourism industry to raise awareness of retrofit greening, in which representatives from HRGP are participating to raise awareness of the program itself.

The HGRP Program is a unique and first-of-its-kind initiative. Due to the global nature of the program's ambition, IFC will be able to work with only a limited number of FIs in each country. Therefore, the role of additional industry stakeholders will be critical for the successful scale-up of the program beyond the initial set of IFC-financed clients. Industry associations are expected to play an important role for the Program's business development, as well as providing forums for the dissemination of the HGRP's lessons learned and experiences to date that are anticipated to build future demand for green building loan products. The dissemination of the Program's results through various channels, such as industry associations and asset managers, will be critical to provide compelling evidence that green retrofits provide a viable and commerical business model for FIs. Demonstrations of the success of existing portfolios may encourage other FIs to build green building lending products without the need for additional concessionality. Mapping of local stakeholders for these efforts, including training, capacity building and awareness raising (in addition to direct engagement with the proposed client FIs) will be scoped as part of the Advisory engagement.

A wide range of stakeholders were engaged for the diagnostics and scoping exercise preceding the design of the Hotel Green Revitalization Program (HGRP), to ensure the viability of the project and design a holistic solution. The engagements were mainly through four channels - an assessment conducted across 273 hotels from 7 countries, a global workshop where hotels and FIs attended to represent their views and needs of different continents, global advocacy collaboration with UNWTO, and IFC team's conversations with existing FI clients in emerging markets. More details on this stakeholder mapping are outlined below.

INTIAL STAKEHOLDER MAPPING

IFC has also performed an extensive assessment of stakeholders across potential markets in preparation for HGRP. The assessment survey engaged over 200 hotel industry stakeholders across seven emerging tourism markets – the Caribbean, India, Indonesia, South Africa, Thailand, the Philippines, and Vietnam. This included individual hotel owners, corporate-level executives from hotel companies that engage directly with hotel owners across their managed or owned portfolios (e.g. Marriott, Radisson), and industry stakeholders such as hotel associations, tourism ministries or departments, and intermediaries involved in hotel development, investment, and asset management.

Survey results showed that hotel business in the identified markets have been seriously impacted by COVID-19 and has led to direct and indirect employment instability and job losses. While, hotels had plans for renovation in medium term and becoming greener over the long-term, if adequate medium-tenor

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capital (shorter tenor capital is being used for working capital needs of hotels) is provided from investors and commercial banks they would like to utilize the downturn in business to undertake green retrofit.

The Upstream workshop was held in September 2020, it was designed to accelerate the IFC upstream pipeline development effort and design products/solutions which address the market needs. The workshop focused on creating market for "building back greener" through the provision of IFC's investments and technical assistance to FIs which in turn would support, hotels, and other players. The global workshop included deep-dive on 3 markets - Thailand, Kenya, and the Caribbean. The participants consisted of both hotels and FIs from prominent each country, and included Radisson Hotel (Global), Minor Hotels (Thailand), Sarova Hotels (Kenya), Sandals Resorts (Caribbean) from the hotels, and KKP Bank (Thailand), KCB (Kenya), Republic Bank (Caribbean) and UNWTO (Global). Through the workshop, the IFC participants were able to further understand these stakeholders' current situation and their needs, and it was established that IFC is uniquely positioned to convene all stakeholders to create the market for green retrofits by setting standards, providing necessary investment and technical assistance (EDGE 3.0, FI capacity building etc).

The advocacy work with UNWTO and other international and local organization focused on creating awareness of the benefits of retrofit greening. During the assessment, UNWTO, along with IFC's Climate Business Department specializing on EDGE, organized two sessions in August 2020 to disseminate the idea of the program and to encourage responding to the survey. Another webinar session was held in March 2021, by UNWTO in collaboration with PATA in Thailand, to familiarize the program with the tourism sector in Thailand, which received several positive reactions to the program. In addition, IFC along with UNWTO, is exploring with Bookings.com the feasibility of creating a filter on the website for green certified hotels. This aims to address the growing importance of greening standards that customers place when choosing their destinations and can help encourage hotels to retrofit to increase their energy efficiency.

The IFC team has been engaging with existing FI clients to develop the pipeline of RSF's to further the implementation of HGRP program across emerging market. For example, the team is in discussion in the Caribbean and in Thailand (non-IDA country) for pipeline transaction and would solicit donor support for providing the necessary first loss to enable IFC's to provide risk mitigation to these FIs who in-turn would help tourism sector build back greener and support job creation and preservation.

Section III. GENDER EQUALITY AND WOMEN'S EMPOWERMENT

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 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.

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

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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.

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 project development. Investments may further benefit, where appropriate from other sources of IFC concessional financing, specifically geared to support women-owned businesses and women entrepreneurs, such as We-Fi which may provide additional incentives to reach women-owned properties.

The hotel industry provides multiple opportunities to address gender gaps. Of the hotels surveyed by IFC during preliminary scoping, women held minority ownership in almost 17 percent of the properties. More than 8 percent of properties were women-owned and 99 percent had female representation in management positions. It should also be noted that the industry is dominated by women in the labor force – nearly 7 out of ten employees in the hotel industry are female. During the project design phase, IFC will evaluate the use of gender disaggregated metrics. IFC expects its clients to minimize gender-related risks from business activities and unintended gender differentiated impacts. Recognizing that women are often prevented from realizing their economic potential because of gender inequity, IFC is committed to creating opportunities for women through both its investment and advisory activities.

With this in mind, within the structure envisioned under HGRP (pooled first loss), IFC does not have the ability to specifically prioritize gender-sensitive indicators. There may be opportunities, on a country by country basis, to explore complementary interventions to incent lending to a particular segment, such as women-owned businesses, which IFC will explore at the FI-level.

Section IV. PRIVATE SECTOR ENGAGEMENT

The mobilization of private sector financing 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 the following:

(i) Transforming Policy and Regulatory Environments to Encourage Sustainable Business
A key component of the IFC upstream engagement included designing and piloting EDGE 3.0 with enhanced capabilities which allow IFC to certify retrofit green buildings. This tool is now ready for deployment. It is being complemented with a) advocacy work with UNWTO and other international and local organization to create awareness on benefits of retrofit greening; and b) collaboration with Booking.com to create a filter on website for green certified hotels. This mainstream project benefits from the upfront Upstream engagement to enable market creation and setting of standards across emerging markets regarding retrofit green building certification, like we have done for new constructions.

(ii) Deploying innovative financial instruments
The HGRP project includes an innovative risk sharing structure with a dual mandate for both risk mitigation and greening. The structure, paired with the advocacy and capacity building in collaboration with industry associations and networks (UNWTO) and leveraging the use of the new EDGE 3.0 for certifying green retrofits, this project offers a comprehensive, multi-country, climate-focused, pooled first loss structure that will be a first-of-its-kind for IFC.

(iii) Convening multi-stakeholder alliances
As part of this project, IFC will continue advocacy work with UNWTO and other international and local organizations to create awareness on benefits of retrofit greening. This will include continuing collaboration with Booking.com to create and operationalize a filter on website for green certified hotels.

(iv) Strengthening institutional capacity
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 RSFs. The demonstration effect of investment projects is expected to scale up the institutional capacity of financial intermediaries to increase their lending for green buildings. Within the realm of private sector engagement, IFC believes that each investment financed strengthens the institutional capacity of our clients. IFC brings rigorous due diligence and E&S Standards to all its investments and demands a threshold of performance from its clients that is aligned with global best practice. For each investment, a team of IFC E&S specialists works directly with the client company to strengthen reporting, ensure safeguards and protect local communities, in line with the World Bank Group's Performance Standards.

(v) Demonstrating innovative approaches
A private-sector engagement through the project will 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 green technologies such a solar thermal, which can be combined with other enhancements for health and safety, such contactless entry, that will reduce emissions and lower operational costs for businesses.

(vi) Crowding in private sector financing
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$400 million from other private sector sources to finance greener retrofits. A successful project is expected to scale up rapidly, across multiple countries and clients, incorporating additional private sector investors and increasing financing ratios for GEF's investment.

With over six decades of experience, IFC has become a leading mobilizer of third-party resources for projects in developing markets. IFC's willingness to engage in difficult environments and its leadership in crowding-in private finance enables it to extend its development impact well beyond its direct resources.

Between FY10 and FY20, 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. More than half of the investment mobilized by IFC projects came from private, third party capital sources.

Additionally, as the Chair of the DFI Working Group on Blended Concessional Finance for Private Sector Projects and a market leader in the use of blended concessional finance in private sector projects, IFC applies the DFI Enhanced Blended Concessional Finance Principles for every concessional transaction. These Principles, including crowding-in the private sector and adhering to minimum concessionality, are part of IFC's continued commitment to catalyze market development and mobilize private sector resources to maximize finance for development.

Section V. RISKS

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Projects under the Program will be implemented in accordance with 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. The most relevant and significant projects risks have been categorized and described below.[15]

(a) Credit risks

With the Project's concessional investments targeting SMEs to retrofit green not yet fully commercially viable due to high risks and/or costs, 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.

(b) 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.

(c) Sector risk

In some countries, regulatory reforms to support green buildings, are not yet 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. IFC's upstream and advisory teams will be engaged to provide technical input to reform efforts and to provide direct advisory and technical services to FI clients, hotel owners, developers and operators.

(d) 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.

(e) 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.

[15] Risks are screened at the project preparation level for each transaction.

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Consistent with IFC's Sustainability Framework, risk screening (including for climate risks) for the HGRP portfolio will occur prior to approval, at the transaction level for each of the 60+ financial intermediaries that IFC anticipates supporting.

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

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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.

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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.

(f) 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

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clients to ensure that all IFC operations, and those of its partners and clients, are regularly reviewed and improved.

(g) 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.

(h) COVID-related risks

Although the program diversifies across countries, it concentrates on the hotel sector, whose timing for recovery remains uncertain. Effective eligibility criteria based on pre-COVID financials would be in place to ensure the portfolio's ability to recover and some diversification by type and size of hotels (to include SME and larger properties). If the economic situation does not improve, or the downturn lasts longer than expected, the portfolio is likely to be more at risk given the high sector concentration.

Section VI. COORDINATION

IFC does not work alone. It collaborates directly with governments, the private sector, financial institutions, and other development banks. In addition, IFC is backed by a World Bank Group commitment to increase climate-related investments by 28 percent and mobilize US$13 billion in private sector capital by 2020. At the 2018 UN Conference of the Parties in Katowice, Poland, the World Bank Group announced new targets for FY21-25, doubling its climate investments to around US$200 billion, a total that includes about US$67 billion in mobilized private capital.

As appropriate, the IFC-GEF HGRP project will align, coordinate and inform with other IFC and World Bank initiatives focused on green buildings, including the stand-alone certification system, ***Excellence in Design for Greater Efficiencies*** **(EDGE),** that IFC launched in 2014.

Section VII. CONSISTENCY WITH NATIONAL PRIORITIES

Consistent with the globalized nature of the macroeconomic crisis, the focus of HGRP will be global. However, in cases where green buildings have been incorporated into national and regional climate objectives, the project is well aligned with national priorities and may offer one of the first effort to provide a certification solution for green retrofits for developing countries tourism industry.

Section VIII. KNOWLEDGE MANAGEMENT

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

- Involving stakeholders in the project's preparation, 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
- Providing thought leadership on technical and operational improvements for hotels, 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
- Coordinate with relevant national, regional and international building certification bodies to enhance the industry focus on retrofits of existing buildings as a viable, commerical intervention on par with new construction.

Specific knowledge work and dissemination work is detailed in Component 2 of the Investment Platform's proposed work plan.

Annex A: Indicative Financial Terms (May 6, 2021)

GEF – INDICATIVE TERMSHEET Project/Program Title	**The Hotel Green Revitalization Program (“HGRP” or “Program”)**
Project/Program Number	IFC 44907 / GEF 10766
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	HGRP is a global platform approach to provide risk mitigation on a portfolio of up to US$800 million equivalent (unfunded facility with 50:50 risk share with IFC, backed by pooled first loss) to local banks to support the hotel industry “build back greener”.
Country [ies]	Global covering over 30 countries (see Annex D) The Program has a strong pipeline of up to US$300 million in IDA countries and up to US$500 million in non-IDA countries. For details refer to the pipeline in the annex. For confidentiality reasons, potential client names are not included.
Investors	IFC will have Risk Sharing Facilities (“RSF”) with IFC’s existing Financial Institution (“FI”) clients, who are in good standing [10] and with environment and social risk rating (ESRR) of 2 or better. New FI clients will be eligible for the program if they adhere to IFC’s E&S requirements and meet IFC’s credit standards. GEF would be a provider of PFLG for IFC’s share of RSF for non-IDA countries. Other climate donors will be also approached for PFLG for IFC’s share of RSF for non-IDA countries. The GEF Guarantee will be separate from IDA countries and will not cover any defaults in IDA. The underlying portfolio shall comprise of small and mid-sized hotels as defined under IFC’s SME definition (employees less than 300). Some larger

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	hotels may employ more than 300 employees but will not include any property which is deemed as high-end luxury. The selection criteria of the hotels would be: • The hotels should have been in good standing before the COVID 19 crises i.e. the hotels should have been current on their repayments for at least 12 months before March 31, 2020. • The hotels should be willing and capable to undertake green retrofitting. The advisory team (Climate Finance and EDGE) will do capacity building workshops and trainings for FIs to help them assess if the hotels can do retrofitting. This will be an ongoing engagement with IFC advisory team and FIs and there is a requirement of regular quarterly reporting from the FIs on the status of hotels under their respective portfolio undertaking such actions.
Project Financing	IFC will provide an unfunded Risk Sharing Facility (RSF) for a 50 percent risk share with the FIs for a ring-fenced portfolio of SME hotel projects in the emerging markets. IFC's share of RSF will be backstopped by pooled first loss. **Total Portfolio: US$800 million** • IDA Countries: US$300 million • Non-IDA countries: US$500 million **IFC's share of Unfunded RSF: US$400 million** ($290 million of IFC own-account, backed by up to $110 million in donor funds, not including GEF) • IDA countries: US$150 million (backed by FLG by donors) • Non-IDA countries: US$250 million (backed by FLG by donors) **Pooled First Loss: [TBD]** • GEF's Guarantee of US$9.1 million (net of fees) providing PFLG for IFC's RSF for non-IDA countries only.

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<table>
<tr><td></td><td>Guarantee from donors (including from GEF) of around US$110 million for IDA and non-IDA countries.</td></tr>
<tr><td>Proposed Co-Financing</td><td>Table: Platform Co-Financing*
<table>
<tr><th>Sources of Co-Financing</th><th>Co-financier</th><th>Type</th><th>Investment Mobilized (US$)</th></tr>
<tr><td>GEF Agency</td><td>IFC</td><td>Unfunded RSF</td><td>US$290m</td></tr>
<tr><td></td><td>backed by FLG from donors</td><td>First loss guarantee</td><td>US$110m</td></tr>
<tr><td>Private Sector</td><td>60+ Financial Institutions</td><td>Debt</td><td>US$400m</td></tr>
<tr><td colspan="4">*IFC will contribute an additional $2.5 million in the form of TA/Advisory to FIs/Hotels under the Program

*Donor funds will provide first loss for IFC's total eligible IDA and Non-IDA portfolio; For IDA countries, PFL is indicatively expected to be US$45m; for non-IDA PFL is anticipated to be between $45-65m.</td></tr>
</table></td></tr>
<tr><td>GEF Proposed Financing in the form of Guarantee</td><td>US$9.132 million (net of fees) from GEF as a provider of Pooled First Loss Guarantee for non-IDA countries only</td></tr>
<tr><td>Agency Fees</td><td>GEF fees to Agency: US$867,580</td></tr>
<tr><td>Total Portfolio under the Program</td><td>The Program will target a portfolio of up to US$800 million over the next 3 years.</td></tr>
<tr><td>Co-financing and Co-Financing Ratio</td><td>GEF's guarantee is an integral part of the Program of US$800 million as it will enable Program extension to non-IDA countries and help to de-risk RSF exposure by pooling projects to make the Program a success.
Each GEF US$1 mobilizes US$80 of other financing from other sources
Indicative co-financing ratio for the program is 1:80x
Indicative co-financing ratio for the private sector financing is 1:40x
This co-financing ratio may increase as portfolio coverage is increased.</td></tr>
<tr><td></td><td></td></tr>
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Currency of the Guarantee	USD
Currency risk	The PFLG is denominated in USD. Payments made by GEF under the PFLG will be in US$ only. There will be no currency risk to GEF as the Guarantee amount from GEF will be capped at US$9.1 million.
Structure and Governance	**Structure**: Under the Program, IFC would enter Risk Sharing Agreements (RSAs) with local banks. Donors are expected to provide a pooled first loss cover and reimburse IFC for its losses under the RSAs up to a cap of US$ amount (“First Loss Amount”). Under each RSA, IFC would share losses with the Bank/FIs on its portfolio of financings to borrowers meeting pre-agreed Eligibility Criteria, typically on a pro-rata and pari-passu basis. The terms of the individual RSAs can vary, depending on each FI’s need and anticipated utilization capacity. The first loss is used to pay losses coming from all the RSAs until the cap is reached. IFC will then be called for any loss allocated to it once the first loss amount is depleted. Loss rates from individual RSAs could exceed or be below the first loss percentage. The first loss utilization and portfolio risk will be actively monitored at commitment of each individual RSF to ensure that risks are in line with expectations. **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 C).

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<table>
<tr>
<td>Program Strategy</td>
<td>
The Program will provide the required risk mitigant and enable FIs to offer longer tenor financing both for meeting medium term liquidity constraints and post-COVID recovery phase funding needs of hotels related to:
i. Immediate requirement of retrofits and improvements that bundle energy and water efficiency with immediate modernization needs (such as contact-free check-in, retrofitting capital equipment and phone operated digital keycards); and
ii. Planned major renovations, to incorporate efficiency upgrade projects to lower the operational costs such as installation of solar photovoltaic (PV) system for electricity, installation of solar thermal system for water heating, building management and monitoring systems and chiller systems.
The Program is expected to cover up to 760 SME hotels through 60 FIs over 20 emerging markets.
Maximum Portfolio Balance: TBD – up to $[50] million for a single FI; 20 percent country limit
Maximum IFC Risk Amount: TBD - 50 percent of Maximum Portfolio Balance for a single FI (i.e. up to US$25 million for a single FI).
Loans to underlying RSF portfolio:

Term loans to hotel clients with average size of US$2.5 million and tenor of 5-year amortizing (2-year grace period)
Upon receiving the loans, the underlying hotels will make a commitment to, over an 18- 24 month period, achieving certain milestones toward green retrofitting.
Only the hotels that meet the greening criteria will be eligible for inclusion in the RSF portfolio. Funding will be tied to greening elements; if progress is not observed in 18-24 months the loan will be removed from the portfolio.

Defaults that may occur before greening are at the risk of the FI, who is responsible for the due diligence.
</td>
</tr>
</table>

	The RSF with participating FIs will be complemented by advisory on capacity building of FIs on EDGE Version 3.0 for retrofits. Only those hotels will be eligible to be part of the program which can meet EDGE or other green building certification requirements over tenor of the loan.
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 a quarterly basis FIs will report to IFC the milestone on retrofitting achieved by its underlying portfolio. Failure to fully meet the milestones could result in IFC's guarantee coverage to drop to lower than 50 percent on the existing portfolio or the hotel property becoming ineligible for IFC guarantee.
Life of the Program and associated investment projects	The life of the Program will be (12) twelve years: • <u>Investment Period</u>: Period for IFC to underwrite RSFs with FIs will be (3) years. • <u>Ramp Up</u>: Period for individual FIs to build up portfolio under the RSFs will be (3) three years. • <u>Portfolio Loans</u>: Underlying loans to SME hotels under the RSF will have an average tenor of 5 years with 2 years as grace period. • Additional 1 year for cleaning up the portfolio under the Program. RSF availability time period is fixed; no loans will be eligible to be extended.
Exposure Limits	GEF's guarantee will be capped at US$9.1 million (net of fees).
Guarantee Fees	Guarantee Fee for GEF will be set as a percentage portion of GEF PFLG as a portion of the total IFC risk sharing fee. Final calculations will be made at the time of each risk participation agreement with an FI. Pricing will depend on the underlying risk of the portfolio created by each individual FI; in pooled first

	loss structures the premium is expected to be significant, which is an inherent part of the donor additionality in the provision of a first-loss guarantee. Actual risk sharing fees will be lower, without which the project will not proceed. Final calculations to be made at the time of each risk participation with the local FI. • Guarantee fees for GEF will be pari passu to IFC's Risk Sharing Fees. • Risk Sharing Fees received by IFC over time will be shared with GEF based on a pre-agreed formula. • GEF would receive a percentage portion of the risk sharing fees IFC receives, but no more than the available First Loss Amount relative to the portfolio committed amount. • The percentage portion used for fee sharing will be based on the target PFLG percentage.
Reflows	Reflows will follow the same procedure IFC uses for all blended concessional finance projects that periodically reflow capital. 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, 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.
Recovered Proceeds	Any proceeds from recovery of defaulted assets will go first to IFC to make IFC whole, and subsequently to GEF, following reflow process outlined above.
Cash Waterfall (Recovered Proceeds) from Individual Investment	If defaults occur, the GEF guarantee will be used to cover IFC's loss until the full US$9.1 million (net of fees) guarantee amount is fully depleted. Any subsequent loss of the portfolio will be borne by IFC. Any proceeds from recovery of those defaulted assets will go first to IFC to make IFC whole, and subsequently to GEF.

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Use of Concessionality	Discussions with FIs in the pilot markets have shown that the challenge is lack of risk mitigation tools (and not liquidity) to enable them to continue supporting the sector. Many FI's have exposure to hotel sector, which were performing well prior to COVID19, however given that the sector is unlikely to recover anytime soon, the FI's are hesitant to lend more to the sector without risk mitigants. The unfunded 50:50 risk sharing facility (RSF) structure being proposed addresses the constraints of FIs and hotels. The proposed PFLG from GEF is a vital tool to overcome this supply side market failures 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 banks and 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 for the Program. Over time, as the pool of RSFs in the Program reaches the limit and actual performance data accumulates, IFC will consider adjusting the first loss percentage on the Program pool downward by adding new facilities without increasing the first loss.
Termination	Termination of Guarantee when the last outstanding loan under the RSF has been repaid.
Reporting	Each portfolio company under the individual RSF will provide portfolio reports and performance information on a quarterly basis. Annual financial reports will be audited based on international financial reporting standards (IFRS). IFC will report to GEF on the performance of the Program through its customary annual monitoring and reporting (AMR) channels.

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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.
Knowledge Sharing	IFC is open to ongoing discussions with GEF Secretariat on the most effective venue/fora to disseminate the information on the performance of the Program. IFC's work is also being complemented with a) advocacy work with UNWTO and other international and local organization to create awareness on benefits of retrofit greening; and b) collaboration with Booking.com to create a filter on website for green certified hotels.

Annex B: Reflows table (April 28, 2021)

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	No. 10766
Estimated Agency Board approval date	December 2021
Investment type description	First Loss guarantee to backstop IFC's Risk Sharing Facility with the local FIs across the emerging markets.
Expected date for start of investment	3Q2022
Amount of GEF Guarantee	US$9.1 million (net of fees)
Amount of Co-Financing	GEF Guarantee will provide FLG for IFC's RSF of US$400 million for a portfolio of US$800 million. GEF financing will be integral for the Program as it will allow extension of the Program to non-IDA countries and thus will be de-risking and diversifying the underlying projects of the Program. and
Estimated Return	TBD
Maturity	The Investment Platform will have a 12-year life.
Fees	Guarantee Fee for GEF will be set as a percentage portion of GEF PFLG as a portion of the total IFC risk sharing fee. Final calculations will be made at the time of each risk participation agreement with an FI.
Repayment method description	IFC shall pay to GEF the US Dollar Equivalent Amount of the aggregate Guarantee Fees in respect of all outstanding eligible loans within thirty (30) calendar days of the end of each semi-annual period ending on TBD and TBD of each calendar year.
Frequency of reflow	• Semi-annual Guarantee Fees payable by IFC to GEF • One repayment of any unused portions (if applicable) • One final repayment for any recovered guarantee amounts
First fees repayment date	TBD
First repayment amount	Guarantee Fees (TBD)[16]
Final fees repayment date	At the end of the Availability Period, i.e. 12 years is estimated life of the Program.
Final fees repayment amount	TBD
Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	Total of Guarantee Fees, recovery amount and unused portion of funds, if any. The Program may incur losses and be unable recover the First Loss Guarantee amount.

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

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Annex C: Partner Agency Eligibility to Administer Concessional Finance

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

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- *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.

<u>IFC Investment Cycle</u>

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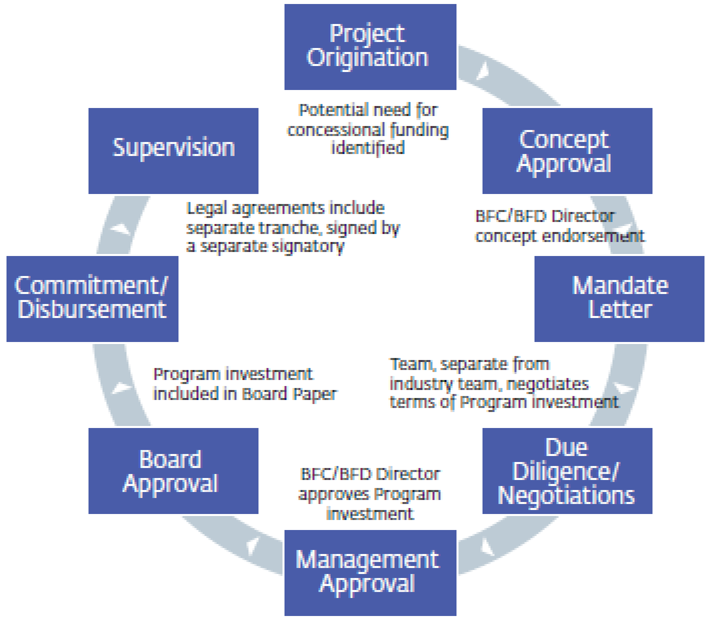

a) Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;

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 exist 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, performs 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

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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 is 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.[17]

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.[18] 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.

[17] As per requirements for Non-grant Instruments in Annex 5 of the Guidelines on the Project and Program Cycle Policy (GEF/C.52/Inf.06/Rev.01)
[18] The total approved amounts do not include advisory funding under various platforms or investment funding approved prior to 2000.

Annex D: Program Pipeline - Target Countries

IFC anticipates working with multiple FIs in each market. Client names are kept confidential until the transaction reaches Board approval.

#	Region	Country	GDP % of tourism	IDA	Indicative S&P Rating
1	SA	Maldives	25.24	Y	B-
2	SA	Sri Lanka	3.35	N	B-
3	SA	Nepal	2.28	Y	B-
4	SA	Bangladesh	1.12	Y	BB-
5	SA	India	2.36	N	BBB-
6	EAP	Vietnam	6.25	N	BB
7	EAP	Philippines	12.90	N	BBB+
8	EAP	Fiji	9.04	Y	BB-
9	EAP	Cambodia	14.50	Y	B
10	EAP	Thailand	9.66	N	BBB+
11	EAP	Vanuatu	15.26	Y	B
12	EAP	Papua New Guinea	0.84	Y	B-
13	EAP	Indonesia	1.88	N	BBB
14	Caribbean	Jamaica	11.96	N	B+
15	Caribbean	Dominican Republic	5.66	N	BB-
16	Caribbean	Dominica	14.58	Y	B
17	Caribbean	Grenada	16.79	Y	CCC-
18	Caribbean	St Lucia	17.05	Y	B-
19	ECA	Georgia	11.55	N	BB
20	SSA	Kenya	2.71	Y	B+
21	SSA	South Africa	2.70	N	BB-
22	SSA	Seychelles	17.78	N	B+
23	SSA	Tanzania	3.03	Y	B
24	SSA	Madagascar	3.73	Y	B-
25	SSA	Comoros	4.03	Y	CCC+
26	SSA	Mauritius	8.39	N	BBB+
27	MENA	Egypt	6.62	N	B
28	MENA	Tunisia	6.50	N	B
29	MENA	Morocco	5.82	N	BBB-
30	LAC	Brazil	2.44	N	BB-

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