# IFC-GEF Hotel Green Revitalization Program (HGRP)

## Basic Information

**GEF ID**
**10766**

**Countries**
Global

**Project Title**
IFC-GEF Hotel Green Revitalization Program (HGRP)

**GEF Agency(ies)**
World Bank

**Agency ID**

**GEF Focal Area(s)**
Climate Change

**Program Manager**
Avril Benchimol Dominguez

# PIF

Part I – Project Informatio

## Focal area elements

### 1. Is the project/program aligned with the relevant GEF focal area elements in Table A, as defined by the GEF 7 Programming Directions?

#### Secretariat Comment at PIF/Work Program Inclusion

The GEF found the proposal is very well written, structured and in line with GEF-7 entry point "Accelerating energy efficiency adoption", an area we very interested in focusing on through private sector approaches. It proposes an innovative financial scheme which seems adequate for the level of ambitious of the program (i.e. a global program with an initial focus on 30 countries). The proposal also includes an important capacity building component to both FI and SME hotels, which is key to bring on board approx. 60 FIs and 760 SME hotels in a new arena for them (i.e. energy efficiency).

The GEF suggests a guarantee size of US$ 10 M; additional comments on the mechanics of the guarantee are needed.

**Additional comments from GEF Sec 04/06/2021**

Please check the NGI box in the PIF

**Additional comments from GEF Sec 04/21/2021**

Cleared.

**Additional comments from GEF 05/05/2021**

Agency should only be WB, not WB, IFC. Please correct both Part I: Project Information and Table D accordingly. Also, please fill in other executing partner name and type as relevant (as long as there is an Executing Partner pre-selected): you can also select Private Sector as executing partners (since the FIs would be the ones executing the projects).

#### Agency Response

Comments from the Secretariat are noted with thanks. IFC acknowledges that GEF proposes to reduce the guarantee size to US$10 million. GEF will provide much needed derisking to anchor the first loss pool covering multiple countries. The GEF's

US$10 million. GEF will provide much needed derisking to anchor the first-loss pool covering multiple countries. The GEF's participation is critical, both to provide diversification to the global RSF, as well as an anchor donor that allows IFC to raise additional concessional funds to supplement this pool. IFC has provided additional detail on the mechanisms of the guarantee, including the payment waterfall, in the supporting materials.

IFC Response to 4/6 Comments

**Our apologies, the NGI box shows as checked on our side. Please let us know what we can do to resolve this issue. This seems to be a portal glitch that has also cropped up with other WBG NGI projects.**

IFC Response to 4/21 Comments: Thanks.

**IFC responses to 5/05/2021 Comments**: The Agency has been changed to WB in the Project information and Table T. We have filled in other executing partner(s) as IFC, Financial Intermediaries and type as Private Sector.

## Indicative project/program description summary

### 2. Are the components in Table B and as described in the PIF sound, appropriate, and sufficiently clear to achieve the project/program objectives and the core indicators?

#### Secretariat Comment at PIF/Work Program Inclusion

The proposal needs more clarity around how the expected $CO_2$ emission reductions have been estimated. At PIF stage, a short description of the methodology used will suffice. The expected investments would reduce 1.6 million tonnes of $CO_2$ across 30 countries for a total of 20 years, i.e. approximately 82,233 t $CO_2e$ per year. The amount of $CO_2$ emissions reductions seems too low (conservative?) for the total amount of expected investments, and the price per ton appears to be very high compared.

The proposal should include considerations on C&W that are to be designed within the EE solution and count with mechanisms to avoid disposals of toxic chemicals. The team would also welcome inclusion of core indicators in that respect. Additional circular economy considerations would also improve the porposal.

**Additional comments from GEF Sec 04/06/2021**

In addition, GEF suggests that at CEO endorsement the proposal includes a rough estimation of energy saved under Core Indicator 6.3.

The GEF team welcomes additional comments ahead of CEO endorsement on chemicals and waste under IFC E&S requirements.

The GEF team thinks this is very important as it may allow some hotels to follow other national and/or international standard and, as such, encourage the IFC team to further highlight this at CEO Endorsement and make it consistent throughout the document.

Throughout the document, wording claiming min of US$ 800M private sector financing for green retrofits seem to not fit with the co-financing table where purely private sector financing stands at US$ 355M.

We suggest rephrasing project component One and component Two in table B. GEF co-financing can only be devoted to generate GEBS; component 1 does not seem to relate to generation of environmental benefits. Component two "jump start" sustainability does not fully cover deliverables in green retrofits. This table should be rephrased in line with a Theory of Change (to be submitted) that focuses on the delivering GEBs.

**Additional comments from GEF Sec 04/21/2021**

1. Thank you, noted it is also included in the PIF description.
2. In private sector engagement element in PIF, there is still wording "the project is expected to crowd in a minimum of US$800 million of private sector financing for greener retrofits".
3. Noted the component change, will M&E cost be covered by component 2? We need an indicative M&E cost to be specified in Table B, and capture core indicator and sub-indicator targets.

**Additional comments from GEF Sec 04/27/2021**

Cleared

Except for M&E, please include the explanation in table B also in a section of the ProDoc.

**Agency Response**

The IFC methodology for GHG savings from retrofitted buildings is based on a calculation of the potential lending portfolio size in a given country, estimated by the number of financial institutions IFC expects to work with. Total expected financing per country is translated to carbon savings by calculating the potential retrofitted floor space (in square meters or m2), using an average estimated size of an SME hotel together with the average energy usage per square meter of floor space (extracted from EDGE for each country). The total energy usage is then used to estimate the energy savings. IFC's EDGE certification requires a baseline of 20% savings. Total energy savings are converted to GHG savings by using the country-specific grid emission factor. A spreadsheet detailing this calculation for each of the 30 countries in IFC's near-term pipeline have been submitted to the Secretariat in the supporting documentation.

At the Secretariat's request, IFC revisited some of the underlying assumptions in the portfolio and made the following adjustments:

(1) 20% energy savings from certified buildings is the minimum standard accepted; most EDGE projects achieve savings between 20-40%. Based on this, IFC has adjusted the proposed average upwards from 20% to 25%. This modification is done based on the view of encouraging hotels to reach EDGE Advanced level with 40% energy saving where technically and financially viable.

(2) Previous estimates included a conservative cost of retrofits at US$300/m2; this is likely too high for smaller properties, who will not necessarily undertake deep retrofits, including advanced upgrades that would be appropriate to a cost-estimate of US$300/m2. Many SME hotels will avail themselves of less expensive options that still ensure significant savings. Retrofit costs per square meter assumptions have been lowered to US$250 per square meter.

(3) Finally, IFC is proposing to make slight adjustments that will rebalance business development efforts and prioritization towards countries with the highest grid emission factors, which will maximize carbon savings. High energy intensity countries that also have significant tourism sectors, such as South Africa, Indonesia, Philippines, and Vietnam have been prioritized for the first HGRP transactions.

Together these adjustments IFC has proposed in consultation with the Secretariat have adjusted the total GHG savings expected from the program from 1.6 million CO2e changes to 1.8 million CO2e. These targets have been revised in the PIF submission information. The spreadsheet detailing these calculations will also be shared with the Secretariat.

With regards to the **comments received from the Secretariat on Chemicals & Waste**, the disposal of toxic chemicals and the inclusion of circular economy, these are well noted.

IFC's management of chemicals and waste in its projects are comprehensively addressed under IFC's Environmental & Social (E&S) requirements and Performance Standards, which will be applied both to the financial institution IFC transacts with and the sub-portfolio of loans financed with IFC/GEF support. As circumstances widely differ from country to country and client to client, IFC must assess on a case by case basis if each transaction is able to go beyond IFC's typical E&S and Performance Standards, which it will do particularly in areas such as waste management.

Specific harmful or toxic chemicals commonly used in the construction industry are tracked by the EDGE platform, including the new addition of the management of refrigerants, which has been internationally classified as a harmful with high Global

Warming Potential (GWP). As the use of one kilogram of refrigerant emits between two and fourteen tonnes of carbon, the

chemical has banned in most developed countries. EDGE suggests alternatives and substitutions for each project and tracks the use of these chemicals. Further, EDGE will also track and calculate the embodied carbon from construction materials, suggesting less carbon intensive, reduced quantity, more sustainable, materials that improve waste management and disposal. These are two preliminary points of entry into further opportunities to chemical and waste management.

With regards to **incorporating circular economy considerations**, IFC's view is that this platform will be primarily driven by a rapid COVID response and need for liquidity in the tourism sector; additional criteria beyond the requirement of a green element may negatively impact the uptake by FIs, the successful launch of a new product line to SME hotels or the utilization of that lending product.

IFC's primary objective with this project will be the launch new green lending credit lines for hotels that standardize the offering and business case for retrofits, incentivizing a new lending product in multiple countries that will continue to be offered after the IFC/GEF project is completed and spark replication by other FIs in the market, not affiliated with the original project. Additional burdensome criteria during operations of hotels will make FIs even more hesitant to accept IFC stringent reporting, tracking and monitoring obligations and doubtful of their ability to pass those requirements on to SMEs that may not be able to meet them. IFC does anticipate being able to influence procurement choices and other climate-friendly operational decisions through the TA/Advisory services that will be offered alongside these loan products. The relationship between the in-country EDGE team, which is a broader, multi-year, multi-country effort funded outside of HGRP project, will provide other opportunities to continue to work with these hotels on greening initiatives, including circular economy concerns such as more sustainable procurement choices.

Additional comments from GEF Sec 04/06/2021

In addition, GEF suggests that at CEO endorsement the proposal includes a rough estimation of energy saved under Core Indicator 6.3.

The GEF team welcomes additional comments ahead of CEO endorsement on chemicals and waste under IFC E&S requirements. The GEF team thinks this is very important as it may allow some hotels to follow other national and/or international standard and, as such, encourage the IFC team to further highlight this at CEO Endorsement and make it consistent throughout the document.

IFC Response to 4/6/21 Comments

**IFC can include a rough estimate of energy saved. IFC will share more details on the C&W elements of IFC's E&S standards ahead of CEO endorsement. However, IFC would like to reiterate that, as previously discussed, circumstances differ widely from country to country and client to client; IFC must assess each transaction on a case-by-case basis to ascertain if IFC is able to go beyond IFC's Performance Standards for areas such as waste management.**

Throughout the document, wording claiming min of US$ 800M private sector financing for green retrofits seem to not fit with the co-financing table where purely private sector financing stands at US$ 355M.

IFC Response to 4/6/21 Comments

**IFC would like to clarify that GEF's role in HGRP is as the anchor donor that will catalyze up to $800 million in cofinancing. However, the Secretariat is correct to point out that this will not all come from private sector sources. The document has been adjusted accordingly.**

We suggest rephrasing project component One and component Two in table B. GEF co-financing can only be devoted to generate GEBS; component 1 does not seem to relate to generation of environmental benefits. Component two "jump start" sustainability does not fully cover deliverables in green retrofits. This table should be rephrased in line with a Theory of Change (to be submitted) that focuses on the delivering GEBs.

IFC Response to 4/6/21 Comments

**This comment is well noted. The project components were structured to highlight the project's dual objectives to provide counter-cyclical COVID liquidity while catalyzing the creation of certified green buildings. However, these components are inherently comingled and it is not possible to meaningfully separate them. After review, IFC has combined the two components, to better highlight how the project will provide sustainable recovery opportunities through green retrofits.**

**Additional comments from GEF Sec 04/21/2021**

1. Thank you, noted it is also included in the PIF description. IFC: Thanks.

2. In private sector engagement element in PIF, there is still wording "the project is expected to crowd in a minimum of US$800 million of private sector financing for greener retrofits". IFC: Apologies, this has been fixed. Confirming private sector financing of $400 million.

3. Noted the component change, will M&E cost be covered by component 2? We need an indicative M&E cost to be specified in Table B, and capture core indicator and sub-indicator targets.

IFC Response:

> 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.

**IFC Response to 04/27/2021 comments: Thank you. IFC has included the explanation in the ProDoc and under Table B.**

## Co-financing

3. Are the indicative expected amounts, sources and types of co-financing adequately documented and consistent with the

3. Are the indicative expected amounts, sources and types of co-financing adequately documented and consistent with the requirements of the Co-Financing Policy and Guidelines, with a description on how the breakdown of co-financing was identified and meets the definition of investment mobilized?

Secretariat Comment at PIF/Work Program Inclusion

The co-guarantors for IDA and Non-IDA countries should be disclosed in the co-financing table.

The seniority/subordination of guarantors should also be described.

**Additional comments from GEF Sec 04/06/2021**

Throughout the document, wording claiming min of US$ 800M private sector financing for green retrofits seem to not fit with the co-financing table where purely private sector financing stands at US$ 355M. Since for the GEF the private sector financing specifies agency/other donors co-financing please correct throughout the document the numbers to US$ 355 M co-financing from Private Sector.

Co-financing areas appears to be 1:88 but should be 1:80? Also please provide co-financing by private sector only.

**Additional comments from GEF Sec 04/21/2021**

1. In private sector engagement element in PIF, there is still wording "the project is expected to crowd in a minimum of US$800 million of private sector financing for greener retrofits". Please make the document consistent with final number. For non-IDA countries co-financing seem to have lowered down to US$ 355M from US$ 500M ; does this affect the total US$ 800M including co-financing of FIs?
2. Co-financing ratio should include GEF Agency fee, therefore 1:80, and the termsheet still does not include co-financing for private sector only.

3. In the termsheet and throughout the document we find inconsistencies: I am not sure what we are guaranteeing IFC exposure in non-IDA countries (US$ 500 M? US$ 355M as per table? or US$ 250 m as per new number below?)? Please address

**Total Portfolio: US$800 million**

· - IDA Countries: US$300 million

· - Non-IDA countries: US$500

— million

**IFC's share of Unfunded RSF: US$355-400 million**

· IDA countries: US$150 million

· Non-IDA countries: US$250 million

**Pooled First Loss: [TBD]**

- GEF's Guarantee of US$9.1 million providing PFLG for IFC's RSF for non-IDA countries.
- Guarantee from other donors of around US$~~50~~45-$60 million for IDA and non-IDA countries.
- -

**Table: Platform Co-Financing***

| **Sources of Co-Financing** | **Co-financier** | **Type** | **Investment Mobilized (US$)** |
|---|---|---|---|
| GEF Agency | IFC | Unfunded RSF | $355m |
| Private Sector | 60+ Financial Institutions | Debt | $400m |
| Donor Agencies | TBD | FLG | $45m |
| *IFC will contribute an additional $2.5m in the form of TA/Advisory to FIs/Hotels under the Program | | | |

**Additional comments from GEF Sec 04/27/2021**

Cleared

### Agency Response

The co-guarantors for IDA and Non-IDA countries have been kept confidential as the project does not yet have final approvals. IFC has multiple pools of climate-focused funding and other broader funds such as the IDA Private Sector Window. To make HGRP a success the program must be global in order to provide appropriate risk diversification. Focusing only on IDA countries would make the RSF pool too high-risk and thus too expensive to be commercially feasible.

GEF will be subordinated to IFC but pari- passu to other donors in recovery. This is detailed in the supporting materials

GEF will be subordinated to IFC but pari- passu to other donors in recovery. This is detailed in the supporting materials, including the payment waterfall, provided to the Secretariat.

IFC Response to 4/6/21 Comments

**IFC would like to clarify this point. The total expected facility size enabled by GEF contribution of $9.1m is approximately US$800m. FI clients will provide US$400 million (other private sector sources), IFC would contribute US$355m, which would be backed by an additional amount from other contributing donors in the form PFLG (approximately $45m).**

**Through its participation, GEF is enabling the additional cofinancing of approximately $800m (FIs+IFC+donors), which would not be possible without the US$9.1m FLG from GEF.**

**With regards to the cofinancing ratio, IFC has provided the co-financing ratio using the total investment amount (net of fees). The calculation used was:**

US$800m (Total Facility Size w/o GEF) ÷ US$9.1m (GEF contribution, net of fees) = 1 : 87.9x (cofinancing ratio)

**Additional comments from GEF Sec 04/21/2021**

1. In private sector engagement element in PIF, there is still wording “the project is expected to crowd in a minimum of US$800 million of private sector financing for greener retrofits”. Please make the document consistent with final number. For non-IDA countries co-financing seem to have lowered down to US$ 355M from US$ 500M ; does this affect the total US$ 800M including co-financing of FIs?

**IFC:** Please see response to point (3) below.

2. Co-financing ratio should include GEF Agency fee, therefore 1:80, and the termsheet still does not include co-financing for private sector only.

**IFC:** : Well noted, IFC has removed references to the GEF amount net of fees and included the $10 million, including the cofinancing ratio of 1:80x

3. In the termsheet and throughout the document we find inconsistencies: I am not sure what we are guaranteeing IFC exposure in non-IDA countries (US$ 500 M? US$ 355M as per table? or US$ 250 m as per new number below?)? Please address

**IFC:** IFC made these adjustments to try to more accurately reflect the structure of the proposed project. On the expected Facility size of US$800 million, IFC would expect to cover up to $400 million of FI portfolio loans. This IFC US$400 million would be backed by a donor tranche that would provide partial coverage for any losses. However, as the cofinancing Table (See Table B) automatically sum the IFC + Donor(s), we lowered the IFC amount to reflect that the donor portion will cover IFC, not increase the size of the Facility. We have clarified this in the Termsheet and cofinancing table. We want to confirm that the total Facility size remains at $800 million, with IFC's commitment unchanged at $400 million.

**IFC Response to 04/27/2021 comments:** Thank you.

GEF Resource Availability

**4. Is the proposed GEF financing in Table D (including the Agency fee) in line with GEF policies and guidelines? Are they within the resources available from (mark all that apply):**

**Secretariat Comment at PIF/Work Program Inclusion** Yes

**Agency Response** Noted with thanks.

**The STAR allocation?**

**Secretariat Comment at PIF/Work Program Inclusion** N/A

**Agency Response**

**The focal area allocation?**

**Secretariat Comment at PIF/Work Program Inclusion** N/A

**Agency Response**

**The LDCF under the principle of equitable access?**

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

**The SCCF (Adaptation or Technology Transfer)?**

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

**Focal area set-aside?**

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

**Impact Program Incentive?**

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

## Project Preparation Grant

### 5. Is PPG requested in Table E within the allowable cap? Has an exception (e.g. for regional projects) been sufficiently substantiated? (not applicable to PFD)

Secretariat Comment at PIF/Work Program Inclusion N/A

Agency Response

## Core indicators

### 6. Are the identified core indicators in Table F calculated using the methodology included in the corresponding Guidelines? (GEF/C.54/11/Rev.01)

Secretariat Comment at PIF/Work Program Inclusion

The proposal needs more clarity around how the expected $CO_2$ emission reductions have been estimated. At PIF stage, a short description of the methodology used will suffice. The expected investments would reduce 1.6 million tonnes of $CO_2$ across 30 countries for a total of 20 years, i.e. approximately 82,233 t $CO_2e$ per year. The amount of $CO_2$ emissions reductions seems too low (conservative?) for the total amount of expected investments, and the price per ton appears to be very high compared.

As per comments in table A, C&W core indicators would be welcome.

As per comments in table A, C&W core indicators would be welcome.

**Additional Comments GEF Sec 04/06/2021**

Secretariat Reply

1. A spreadsheet detailing this calculation for each of the 30 countries in IFC's near-term pipeline have been submitted to the Secretariat. Some conservative assumptions have been revised in the GHG sheet and the final amount of GHG reduced has been updated from 1.6 to 1.8 million of CO2. The GEF team welcomes this and confirm is ok with the calculations provided. Going forward, the GEF team has the following recommendations for CEO Endorsement: (i) To include the sources of some of the assumptions and general data such as costs of retrofitting per m2 in use, average size of hotel in m2, energy usage per m2, emission factor, etc.; and (ii) To include in the excel sheet the total calculation for the life of the project, i.e. 1.8 million tons of CO2 over 20 years.

2. The IFC team has adjusted the proposed energy savings average in the GHG calculation sheet upwards from 20% to 25%. This modification, which has resulted in higher amount of GHG emission to be reduced, has been done based on the view of encouraging hotels to reach EDGE Advanced level with 40% energy saving where technically and financially viable. As per IFC clarification "EDGE strategy has been to encourage projects to get to EDGE Advanced certification and almost 25% of all EDGE certified buildings are already at EDGE Advanced. Furthermore, the funding system does not allow differentiation between EDGE certified and or EDGE Advanced. Therefore, under the HGRP structure IFC cannot adjust the financing model to cater for various levels of certification". From the response, it is not clear whether HGRP will require eligible hotels to reach a minimum of 20% as per EDGE or 25% of energy savings as initially proposed by the GEF and as per the updated GHG calculation sheet. We noted that the revised proposal mentions 20% energy savings throughout.

3. GEF team expects to see additional details on Chemicals and Waste treatment under the E&S standards ahead of CEO endorsement.

**Additional comments from GEF Sec 04/21/2021**

Cleared. For future ease of reference, please find attached a list of CCM issues that need to be included or enhanced at CEO ER:

1. Add a brief explanation/paragraph on the **selection criteria for the initial group of 30 countries** (IFC EDGE or FI Group prior engagement with the country, % of GDP related to tourism, etc.);
2. Incorporate an **estimation of energy saved** under Core Indicator 6.3;
3. Ensure only hotels reaching a **minimum of 25% energy savings** are eligible for this projects (this 25% energy savings shall also be reflected in the GHG calculations);
4. Revise/Update the indicative **hotel selection and eligibility criteria** to ensure that hotels benefitting from this proposal are indeed small businesses in need for green financing;
5. Update the **GHG spreadsheet** to incorporate the sources of some of the assumptions and general data such as costs of retrofitting per m2 in use, average size of hotel in m2, energy usage per m2, emission factor, etc., and the total calculation for the life of the project, i.e. 1.8 million tons of $CO_2$ over 20 years;

6. Make sure the final project leave the door open for the use of **other national and/or international standards** under the proposed project, i.e. *"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".*

**Additional comments from GEF Sec 04/27/2021**

Additional comments from GEF Sec 04/27/2021

Thank you, confirm that prodoc reflects the change.

Agency Response

As stated above, the IFC methodology for GHG savings from retrofitted buildings is based on a calculation of the potential lending portfolio size in a given country, estimated by the number of financial institutions IFC expects to work with. Total expected financing per country is translated to carbon savings by calculating the potential retrofitted floor space (in square meters or m2), using an average estimated size of an SME hotel, together with the average energy usage per square meter of floor space. The total estimated energy savings are calculated from total energy use by using the benchmark savings rate of 25%, which is above IFC's standard EDGE requirement. Energy savings are converted to GHG savings by using the country-specific grid emission factor. After conversations with the Secretariat, IFC has proposed adjustments to the total GHG savings expected from the program upwards from 1.6 million to 1.8 million CO2e. These targets have been revised in the PIF submission information. The spreadsheet detailing these calculations will also be shared with the Secretariat.

**Additional Comments GEF Sec 04/06/2021**

Secretariat Reply

1. A spreadsheet detailing this calculation for each of the 30 countries in IFC's near-term pipeline have been submitted to the Secretariat. Some conservative assumptions have been revised in the GHG sheet and the final amount of GHG reduced has been updated from 1.6 to 1.8 million of CO2. The GEF team welcomes this and confirm is ok with the calculations provided. Going forward, the GEF team has the following recommendations for CEO Endorsement: (i) To include the sources of some of the assumptions and general data such as costs of retrofitting per m2 in use, average size of hotel in m2, energy usage per m2, emission factor, etc.; and (ii) To include in the excel sheet the total calculation for the life of the project, i.e. 1.8 million tons of CO2 over 20 years.

IFC Response to 4/6/21 Comments

**Noted - IFC will provide assumptions and data on how these costs are calculated prior to CEO endorsement and will share an updated Excel file showing the full lifetime calculation for the GHG assumptions. Should it be helpful, further details on the EDGE methodology are available at:**

**https://edgebuildings.com/wp-content/uploads/2019/07/180709-EDGE-Methodology-Version-2.pdf**

2. The IFC team has adjusted the proposed energy savings average in the GHG calculation sheet upwards from 20% to 25%. This modification, which has resulted in higher amount of GHG emission to be reduced, has been done based on the view of encouraging hotels to reach EDGE Advanced level with 40% energy saving where technically and financially viable. As per IFC clarification "EDGE strategy has

been to encourage projects to get to EDGE Advanced certification and almost 25% of all EDGE certified buildings are already at EDGE Advanced. Furthermore, the funding system does not allow differentiation between EDGE certified and or EDGE Advanced. Therefore, under

the HGRP structure IFC cannot adjust the financing model to cater for various levels of certification". From the response, it is not clear whether HGRP will require eligible hotels to reach a minimum of 20% as per EDGE or 25% of energy savings as initially proposed by the GEF and as per the updated GHG calculation sheet. We noted that the revised proposal mentions 20% energy savings throughout.

IFC Response to 4/6/21 Comments

**To clarify, the minimum baseline requirement for EDGE Certification is 20% energy savings. However, across a global portfolio of more than 13 million square meters, IFC has observed that on average, EDGE projects exhibit energy savings that are higher than the required baseline. Based on this past experience, IFC is comfortable with the assumption that projects financed through HGRP will achieve similar results, creating a diversified portfolio of certified projects that average energy savings of at least 25%.**

3. GEF team expects to see additional details on Chemicals and Waste treatment under the E&S standards ahead of CEO endorsement.

IFC Response to 4/6/21 Comments

**As discussed above, IFC will share more details on the C&W elements of IFC's E&S standards ahead of CEO endorsement. However, as previously noted, circumstances widely differ from country to country and client to client and IFC must evaluate on a case by case basis if each transaction is able to go beyond IFC's Performance Standards, particularly in areas such as waste management.**

Additional comments from GEF Sec 04/21/2021

Cleared. For future ease of reference, please find attached a list of CCM issues that need to be included or enhanced at CEO ER.

IFC Response: The reference list is appreciated. Confirming that we have included the language on incorporating other national or international certifications, as appropriate, throughout the document. With regards to point (3), IFC can guarantee a 25% savings rate on the portfolio created under HGRP, but as the EDGE certificate baseline is 20% saving, we cannot guarantee it at the individual sub-project (hotel) level. IFC would also note that the higher savings rates may not be viable for the smallest hotel properties that IFC hopes to target in this project.

**IFC Response to 04/27/2021 comments:** Confirming IFC has included the information in the Proposal Document.

## Project/Program taxonomy

## 7. Is the project/program properly tagged with the appropriate keywords as requested in Table G?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

## art II – Project Justification

### 1. Has the project/program described the global environmental/adaptation problems, including the root causes and barriers that need to be addressed?

Secretariat Comment at PIF/Work Program Inclusion

The proposal builds on IFC's experience and network implementing the IFC-owned building tool EDGE. The proposal, although ambitious in the amount of FIs and SME targeted, seems to be less ambitious on the energy side as buildings with a minimum saving of 20% energy savings from baseline could be eligible under to receive financing, on the condition to undergo the EDGE certification. One option that the team could explore to raise the ambition of program in terms of cost per ton$CO_2e$ (see previous bullet point) would be to increase the minimum energy savings eligibility criteria of the program -for all investments or a subset of them- raising the minimum energy efficiency gains of the HGRP from the current 20% to, for instance, 30-35%. Also, is there a way to also push for the EDGE Zero certification in suitable cases? Could we have a minimum share of investments earmarked for this?

In addition to energy efficiency measures, the GEF team would like to explore options to broaden the scope of the proposal and include also material choices. If harmful chemicals and materials and products containing or can lead to harmful chemical emissions these can be phased out through green procurement backup with standards etc. In terms of hotel operations, hotels represent a large consumer of food products, textiles (including carpets, curtains, tapestry, furniture, bedding and bath accessories), cosmetic products including soaps, shampoos etc., and this program could be a great opportunity to change sourcing of food used in the hotel, phasing out single use plastics, phasing out for example small toiletries and replacing with refillable dispensers, procuring textiles and furnishings that are produced responsibly etc.

The proposal includes an important capacity building component. A preliminary set of 30 countries have already been identified, which may be seen a bit ambitious given the strong local communication and dissemination campaign required to bring on board 60 FIs and 760 SME hotels in a new arena for them (i.e. energy efficiency) and the relatively small amount of the capacity building component. Further information on the selection criteria (i.e. previous IFC engagement in the tourism sector, % of GDP related to tourism, etc.) for these countries would be very helpful.

The proposal indicates its support to the Build-Back-Greener Recovery approach, but the GEF team is seeking further clarification on the targeted SME hotels (i.e. up to 300 employees) and their actual need for energy efficiency financing after Covid-19. The link with COVID-19 considerations would need to be strengthened and some categories of hotels who may not need support (beyond the obvious luxury 5 star hotels) could be identified, so that support targets where it's most needed. The limit of 300 employees seems to define SMEs in a very wide fashion.

**Additional comments from GEF Sec 04/06/2021**

1. Thank you for clarifying that the TA would be done by IFC's EDGE team and IFC's Financial Institutions Group Climate Advisory team, which are already operational in many countries and whose activities are already in progress or under implementation. Still, the proposal would benefit from a brief explanation/paragraph on the selection criteria for the initial group of 30 countries (IFC EDGE or FI Group prior engagement with the country, % of GDP related to tourism, etc.).

2. The revised proposal document includes a new section on "Hotel selection and eligibility" which provides an indicative selection criteria of hotels under the Program and clarifies that individual sub-projects for each country will be evaluated and hotel selection criteria may be tailored accordingly. We very much welcome this addition and it is cleared at PIF stage. Going forward, the GEF encourages the IFC to continue assessing and updating the indicative eligibility criteria at CEO Endorsement to ensure that hotels benefitting from this proposal are indeed small businesses in need for green financing

3. We would welcome Additional information about specific technologies and approaches that will qualify for financing would be welcome at the time the agency will submit the project for CEO endorsement. The termsheet mentions solar panels, solar water heaters etc; which contribute to the overall objective of EE. However a list of such technologies would be welcomed.

**Additional comments from GEF Sec 04/14/2021**

1. Ok noted.

2. Cleared

3. Noted. Thanks.

Agency Response

*(1a) The proposal builds on IFC's experience and network implementing the IFC-owned building tool EDGE. The proposal, although ambitious in the amount of FIs and SME targeted, seems to be less ambitious on the energy side as buildings with a minimum saving of 20% energy savings from baseline could be eligible under to receive financing, on the condition to undergo the EDGE certification. One option that the team could explore to raise the ambition of program in terms of cost per tonCO2e (see previous bullet point) would be to increase the minimum energy savings eligibility criteria of the program -for all investments or a subset of them- raising the minimum energy efficiency gains of the HGRP from the current 20% to, for instance, 30-35%. Also, is there a way to also push for the EDGE Zero certification in suitable cases? Could we have a minimum share of investments earmarked for this?*

As discussed with the Secretariat, EDGE's ambition is to readjust the baselines upwards to ensure that projects are continually challenged to achieve more for example EDGE V3.0 baseline is already much more stringent than V2.1. This is why EDGE Advanced and EDGE Zero will be very challenging for city-based hotels given the limited roof area or land area for solar systems. While EDGE strategy has been to encourage projects to get to EDGE Advanced certification and almost 25% of all EDGE certified buildings are already at EDGE Advanced. Furthermore, the funding system does not allow differentiation between EDGE certified and or EDGE Advanced. Therefore, under the HGRP structure IFC cannot adjust the financing model to cater for various levels of certification. Properties that can achieve an EDGE Advance certificate in EDGE V3.0 are generally required use of onsite renewable energy on top of passive and active measures. These properties tend to be higher end properties in more open settings, where conditions are conducive and operationally practical for upgrades like the installation of renewable power. By contrast, HGRP will target city-based, smaller properties that may not see the operational benefits of reaching beyond 40% energy savings by deep retrofits. As for Zero Carbon certification, most hotels may not have access to renewable energy sources and without a compelling business reason and visible payback period for these improvements, most SME hotels (already struggling with day-to-day operations in the COVID pandemic) would have no business reason to invest the additional resources necessary to obtain EDGE Zero Energy or EDGE Zero Carbon. That being said, IFC will seek opportunities to encourage all SME hotels toward carbon neutrality where viable.

*(1b) In addition to energy efficiency measures, the GEF team would like to explore options to broaden the scope of the proposal and include also material choices. If harmful chemicals and materials and products containing or can lead to harmful chemical emissions these can be phased out through green procurement backup with standards etc. In terms of hotel operations, hotels represent a large consumer of food products, textiles (including carpets, curtains, tapestry, furniture, bedding and bath accessories), cosmetic products including soaps, shampoos etc., and this program could be a great opportunity to change sourcing of food used in the hotel, phasing out single use plastics, phasing out for example small toiletries and replacing with refillable dispensers, procuring textiles and furnishings that are produced responsibly etc.*

IFC acknowledges the critical elements of material choices and circular economy opportunities presented by the Tourism sector. However, IFC's point of view is that this project is not based on a business-as-usual scenario which could provide additional opportunities to push FIs to innovate. Rather the program is designed to rapidly deploy in order to provide liquidity to a hard hit sector, while already requiring an additional commitment to greening. In IFC's judgement, further requirements on the FIs and their green building portfolios will be likely to negatively impact the facility's utilization by making FIs even more hesitant to accept IFC stringent reporting, tracking and monitoring obligations and sowing doubt as to their ability to pass those requirements on to SMEs that may not be able to meet them. When the current macroeconomic crisis abates, IFC will take into consideration opportunities to go further on a case by case basis. IFC does anticipate being able to influence procurement choices and other climate-friendly operational decisions through the complementary TA/Advisory services that will be offered alongside these loan products. The relationship between the in-country EDGE team, which is a broader, multi-year, multi-country effort funded outside of HGRP project, will provide other opportunities to continue to work with these hotels on greening initiatives, including circular economy concerns such as more sustainable procurement choices.

*(1c) The proposal includes an important capacity building component. A preliminary set of 30 countries have already been identified, which may be seen a bit ambitious given the strong local communication and dissemination campaign required to bring on board 60 FIs and 760 SME hotels in a new arena for them (i.e. energy efficiency) and the relatively small amount of the capacity building component. Further information on the selection criteria (i.e. previous IFC engagement in the tourism sector, % of GDP related to tourism, etc.) for these countries would be very helpful.*

IFC would like to clarify that the capacity building component, including direct TA to the participating FIs, will be done by IFC's EDGE team, which is already operational in more than 14 countries, with a dedicated on-the-ground staff and stand-alone budget. Many of the market-level TA/KM activities that could go alongside the HRGP are already planned or in progress. Direct work with the FI will be undertaken in conjunction with IFC's Financial Institutions Group Climate Advisory team, which like EDGE, is a standalone program that works alongside IFC FI transactions. Activities are already part of IFC's workplan, but the client-specific engagements will flex to accommodate the HRGP priorities.

IFC has a long and successful track record of delivering impact with investments in the Tourism Sector. Since 1956, IFC has invested over $2.8 billion in over 260 projects across 89 developing countries in the Tourism sector. More than half of these investments were in frontier countries. IFC works with more than 800 financial intermediaries across the globe. The specific selection criteria for participating FIs will first require an ability of the FI to meet IFC's E&S and due diligence standards. The FI portfolio will then be evaluated for the size and strength of the SME hotel portfolio and the FI's interest in launching or growing a green lending product will be assessed.

*(1d) The proposal indicates its support to the Build-Back-Greener Recovery approach, but the GEF team is seeking further clarification on the targeted SME hotels (i.e. up to 300 employees) and their actual need for energy efficiency financing after Covid-19. The link with COVID-19 considerations would need to be strengthened and some categories of hotels who may not need support (beyond the obvious luxury 5*

*star hotels) could be identified, so that support targets where it's most needed. The limit of 300 employees seems to define SMEs in a very wide fashion.*

These concerns are well noted. By aligning the eligibility criteria with IFC's definition of SMEs, IFC can guarantee a minimum standard across the global RSF pool that will ensure that all luxury properties are excluded. The exact number of employees or more precise definitions of SMEs may be tailored by each market, depending on the conditions and the unique factors of that country. However, for the global pool, it is important to maintain a common universal definition of SME, allowing further clarifications or narrowing at the country level. This will avoid applying blanket restricts on the facility that may adversely affect overall utilization, while being overly flexible in some countries and highly restrictive in others.

Further IFC would like to clarify that luxury properties of all types, no matter the size, would be excluded by star category rating. The program will target city-based, second and third tier accommodations and exclude resorts or other types of high-end luxury properties. In some distinct cases, some flexibility may be needed to best accommodate the SME hotels in a specific FI portfolio. Any exceptions will be documented and must be justified to IFC's Blended Finance Committee to ensure application of the DFI Enhanced Blended Concessional Finance Principles, including that of minimum concessionality. The hotel selection criteria applied will require a potential hotel to be evaluated on its need for the financing, as well as its capacity to complete the retrofits.

With regards to ensuring that hotels need energy efficiency improvements, IFC's preliminary survey of hotels in this tier revealed that most hotels in this category will benefit from energy efficiency improvements, potentially saving up to 15 to 20% of their annual operational costs from energy reductions. Despite this, very few hotels that would meet the eligibility criteria for this program have made any improvements. The lack of progress in energy efficient and the high level of benefits available from green retrofits is one of the reasons that HGRP has been designed to target this segment. These hotels are also aware that investors considering both debt and equity would particularly enquire about energy consumption, water consumption and waste management, which are key indicators of environmental performance in hotel asset portfolios. Hotels with non-sustainable properties could find themselves as stranded assets that could affect their credit rating, insurance premiums or ability to raise funds.

Finally, consumer awareness and demand for greater environmental sustainability across various sectors continues to increase across individual and business travelers. This is only expected to grow with continued public support of social movements and increasing availability of information such as a hotel's "sustainable" rating at the time of booking. Hotels are aware that sustainability is a way to lower their operational costs, differentiate themselves in the marketplace and ensure their properties are considered an attractive option for travelers.

**Additional comments from GEF Sec 04/06/2021**

1. Thank you for clarifying that the TA would be done by IFC's EDGE team and IFC's Financial Institutions Group Climate Advisory team, which are already operational in many countries and whose activities are already in progress or under implementation. Still, the proposal would benefit from a brief explanation/paragraph on the selection criteria for the initial group of 30 countries (IFC EDGE or FI Group prior

engagement with the country, % of GDP related to tourism, etc.).

IFC Response to 4/6/21 Comments
A description of the selection criteria has been added to the document.

2. The revised proposal document includes a new section on “Hotel selection and eligibility” which provides an indicative selection criteria of hotels under the Program and clarifies that individual sub-projects for each country will be evaluated and hotel selection criteria may be tailored accordingly. We very much welcome this addition and it is cleared at PIF stage. Going forward, the GEF encourages the IFC to continue assessing and updating the indicative eligibility criteria at CEO Endorsement to ensure that hotels benefitting from this proposal are indeed small businesses in need for green financing

IFC Response to 4/6/21 Comments
This suggestion is well noted. As discussed in the project concept, IFC will explore how eligible SME definitions can be best customized to the specifics of each market, in conjunction with a preassessment by the FI of the hotels in their portfolio. However, IFC would caution that the smallest properties may not be able to able to achieve green certification, as the costs of implementation for SME hotels may not justify the costs. IFC would also note the inherent tradeoffs between SMEs and GEB – even with operational improvements, the environmental benefits from investments by micro-enterprises will be modest.

3. We would welcome Additional information about specific technologies and approaches that will qualify for financing would be welcome at the time the agency will submit the project for CEO endorsement. The termsheet mentions solar panels, solar water heaters etc; which contribute to the overall objective of EE. However a list of such technologies would be welcomed.

IFC Response to 4/6/21 Comments

IFC has shared some indicative technology packages with the Secretariat. These technologies will differ from market to market – what may be appropriate and cost effective in one country may not be the same in another. The EDGE certification process is designed to adjust for local conditions, suggest alternatives and provide a range of locally-feasible, cost-effective efficient options. The information provided is indicative only and subject to change based on the local market needs. In addition, from survey data of hotels, below is a list of the interventions that were of the highest interest to hotels:

- Building façade (exterior) including windows
- Chiller system
- Hot water supply
- Efficient lighting replacement
- Efficient water fixtures replacement
- Installation of solar photovoltaic system for electricity
- Installation of solar thermal system for water heating
- Building management and monitoring systems
- Smart irrigation

- Smart irrigation
- Equipment and appliances renovation
- Staff training for operational efficiency

**Additional comments from GEF Sec 04/14/2021**

IFC RESPONSE: Many thanks.

### 2. Is the baseline scenario or any associated baseline projects appropriately described?

**Secretariat Comment at PIF/Work Program Inclusion**

Please provide description on how EDGE would provide baselines.

On the target SME hotels, please seek to target smaller size and/or target countries where the energy matrix would allow for max GHG avoidnace.

**Additional comments from GEF Sec 04/06/2021**

The GEF team thinks this is very important as it may allow some hotels to follow other national and/or international standard and, as such, encourage the IFC team to further highlight this at CEO Endorsement; baselines should be take into account other standards used; but target at least 20% energy savings.

**Additional comments from GEF Sec 04/14/2021**

Cleared.

**Agency Response**

**On baselines:** To determine the base case parameters for efficiency in each of the required areas, EDGE relies on information on typical building practices and national building performance codes, where they exist. For example, if an energy efficiency code (EEC) is enforced in a certain country, such as China or South Africa, then it is used to define the base case. Typical efficiencies for heating, ventilation and air conditioning systems are based on the ASHRAE 90.1-2016 standard without amendments. Building envelope and other building elements when there is no code are collected based on business as usual conditions in each country. EDGE baseline assumptions in EDGE V2 are given under key assumptions for the baseline and in EDGE V3 are given under each measure for transparency and public review and inputs.

**On target SMEs:** The largest and most critical factor for utilization of the global RSF structure will be the breath and depth of the tourism sector's influence on the local economy. Working with each FI, IFC will apply careful selection criteria to the portfolio of SME hotels to ensure that they fit with the IFC definition of small-and-medium sized enterprises. On a case-by-case basis these may be customized to ensure alignment with the local market. For example, in smaller markets, such as island states, a hotel with less than three hundred employees could still reach a luxury classification.

Through HGRP, IFC seeks to address the SME hotels hardest hit by COVID, while also catalyzing a sustainable green retrofit program in local markets that will achieve significant GHG savings. In revisions to the IFC GHG model, IFC has adjusted the prioritization criteria to include both countries with a high percentage of GDP from tourism, alongside those countries with high grid factor emissions, while also ensuring that local FIs can meet IFC's rigorous E&S standards and other standards. This is reflected in the revised model that IFC has shared in the supporting documentation, which also revises the GHG targets for the project upwards.

Additional comments from GEF Sec 04/06/2021

The GEF team thinks this is very important as it may allow some hotels to follow other national and/or international standard and, as such, encourage the IFC team to further highlight this at CEO Endorsement; baselines should be take into account other standards used; but target at least 20% energy savings.

**IFC RESPONSE: IFC concurs and has used a similar process for other projects. All local certifications will be reviewed in conjunction with the FI client and IFC's climate specialists. If found to be sufficient robust (guaranteeing a minimum of at least 20% savings), the local certification will be included alongside EDGE as an eligible certificate in project's eligibility criteria.**

Additional comments from GEF Sec 04/14/2021

Cleared.

IFC Response: Thanks.

3. Does the proposed alternative scenario describe the expected outcomes and components of the project/program?

## Secretariat Comment at PIF/Work Program Inclusion

Yes; the GEBs seem too low though.

Also, provide considerations on financial health of final borrowers to not avoid over-indebtedness.

**Additional comments from GEF Sec 04/06/2021**

1. Please elaborate what you mean by: 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. Or " The hotels could utilize the loans for meeting immediate or medium-term liquidity"

2. Would the GEF guarantee cover a default on a loan that serves to cover liquidity purposes and not investment in green building? How would that work (line of credit that the hotel can utilize for liquidity purposes up to 24 M and then investing in green retrofits or a 5 year loan to be repaid with use of proceeds being green retrofits> if that is the case, how can a borrower invest in liquidity needs and after 24 M in green retrofits?

3. Is breaching the covenant to achieve green EDGE 3.0 an event of default? " 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." Is the 30 months from loan approval or after they fail to undertake the justification?

4. " 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". Would be covered by whom here, by IFC or by donors? Do you foresee any moral hazard (i.e. FI seeking to "start" the process but then defaults?) Isn't "starting the process too vagyue?

5. Selection and eligibility: please confirm that the commitment to retrofitting materialize is reached by a covenant that the borrower would need to achieve 3.0 EDGE. Any other commitment?

6. **Project Components,** Outcomes and Outputs should be rephrased (as explained in question on Table B above); GEF co-financing and participation is to generate GEBs, therefore Component 1 and outputs 1.1 and 1.2 should be rephrased. We suggest working on a theory of change that would help with project components, and outputs. Please in component 2: we are not only seeking to jump start sustainability but to reach EE buildings in the tourism industry.

7. We noted that the revised proposal in footnote 11, includes the following comments "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" – The GEF team thinks this is very important as it may allow some hotels to follow other national and/or international standard and, as such, encourage the IFC team to further highlight this at CEO Endorsement.

8. Financial additionality: " countercyclical financing to FIS"' should include that this financing would include provisions for hotels to pursue greening of their operations. Please add throughout the document.

**Additional Comments 04/21/2021**

1. " **There would be no such loan that served to cover only liquidity without green building investment."** GEF understands that although there would not be loans for liquidity only, there is the possibility that the borrower does not perform the planned investments in green building. Our question is what happens in that scenario. Since you respond: that if the hotel fails to perform retrofits, it would be ineligible for HGR and the full risk of the loan would rever to the FI.

6. Project Components, Outputs and outcomes described in the Pro Doc continue to relate to COVID -19 pandemic. Please note that GEF financing cannot finance activities that are not related to the environment, so Output 1.1 and Ouput 1.2 should be rephrased to include greening aspects of the loans.

**Additional comments from GEF Sec 04/27/2021**

Cleared

**Agency Response**

*Yes; the GEBs seem too low though.*

*The comment on GEB is well noted. IFC has adjusted the GEBs based on further conversations with the Secretariat and submitted revisions.*

*Also, provide considerations on financial health of final borrowers to not avoid over-indebtedness.*

IFC would like to clarify that this is an unfunded guarantee structure. The FIs have adequate liquidity but require derisking instruments in order to open up lending to the hotel sector, due to the high perceived risks. The first loss guarantee structure provides credit enhancement to IFC's risk sharing facility, allowing IFC to provide terms that are sustainable and acceptable to the FIs. The financial standing of the SME hotels will be part of the selection criteria for hotels to be eligible to participate. IFC would also like to clarify that these loans from the FI to the hotels would be secured, so the risk of borrower over-indebtedness is low.

**Additional comments from GEF Sec 04/06/2021**

1. Please elaborate what you mean by: 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. Or " The hotels could utilize the loans for meeting immediate or medium-term liquidity"

**The short term needs of the hotels are mainly to help properties prepare to reopen with COVID-improvements as tourism revives. These immediate retrofit needs include 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). SME hotels do not currently have access to capital to make even these short-term improvements. In addition to these short-term measures, hotels selected under the portfolio must also have the ability and willingness to undertake longer-term greening projects. Given the current liquidity issues, eligible hotels will be given up to 18-24 months to begin those greening initiatives, allowing sufficient time for the first short-term improvements to be completed and for additional revival of the tourism sector. Hotels that fail to meet these greening milestone criteria within the set timeframe will be removed from the portfolio.**

2. Would the GEF guarantee cover a default on a loan that serves to cover liquidity purposes and not investment in green building? How would that work (line of credit that the hotel can utilize for liquidity purposes up to 24 M and then investing in green retrofits or a 5 year loan to be repaid with use of proceeds being green retrofits> if that is the case, how can a borrower invest in liquidity needs and after 24 M in green retrofits?

There would be no such loan that served to cover only liquidity without green building investment. IFC would also like to clarify that the liquidity needs of the sector are the catalyst that allows IFC to embed the greening requirements into FI on-lending; it is not possible to unbundle shorter term liquidity from greening. However, the FLG is used as a risk mitigant to provide lending to the tourism sector. If a hotel fails to perform retrofits, it would ineligible under HGRP and the full risk of the loan would revert to the FI. Therefore, an FI has incentives to ensure that hotels under this program are willing and able to undertake greening obligations, in order to avail of potential loss-sharing in the event of default.

Further, the eligibility criteria for each FI will be agreed upon as part of IFC's due diligence process and will ensure the FI validates the intention and ability of each hotel to complete greening. This will be documented in the agreement between the FI and IFC.

3. Is breaching the covenant to achieve green EDGE 3.0 an event of default? " 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." Is the 30 months from loan approval or after they fail to undertake the justification?

The metric would begin from the start of loan disbursement.

4. " 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". Would be covered by whom here, by IFC or by donors? Do you foresee any moral hazard (i.e. FI seeking to "start" the process but then defaults?) Isn't "starting the process too vagyue?

Please see IFC's response under point 2, above. To clarify, any losses not related to greening would not be considered eligible. For example, if retrofits had been started before a hotel defaulted, the loan would be part of the RSF portfolio, with the donor providing first loss, and the remainder borne by IFC. Milestones for EDGE certificate will be documented and embedded in the agreement between IFC and the FI client. The EDGE team will be able to advise FIs and their portfolio clients on achieving certification.

5. Selection and eligibility: please confirm that the commitment to retrofitting materialize is reached by a covenant that the borrower would need to achieve 3.0 EDGE. Any other commitment?

Yes, it will be a covenant and part of the agreement between IFC and the FI to achieve EDGE 3.0 certification, or another mutually accepted local certification.

6. Project Components, Outcomes and Outputs should be rephrased (as explained in question on Table B above); GEF co-financing and participation is to generate GEBs, therefore Component 1 and outputs 1.1 and 1.2 should be rephrased. We suggest working on a theory of change that would help with project components, and outputs. Please in component 2: we are not only seeking to jump start sustainability but to reach EE buildings in the tourism industry.

IFC has adjusted this in light of the Secretariat's comments.

7. We noted that the revised proposal in footnote 11, includes the following comments "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" – The GEF team thinks this is very important as it may allow some hotels to follow other national and/or international standard and, as such, encourage the IFC team to further highlight this at CEO Endorsement.

Well noted. It is IFC's intent to accept any national or local certification that is sufficiently robust in terms of energy and carbon savings. Potential certifications will be reviewed and agreed by IFC's climate specialists during due diligence and included under the eligibility criteria alongside EDGE for each transaction.

8. Financial additionality: " countercyclical financing to FIS"' should include that this financing would include provisions for hotels to pursue greening of their operations. Please add throughout the document.

This has been added.

Additional Comments 04/21/2021

1. " There would be no such loan that served to cover only liquidity without green building investment." GEF understands that although there would not be loans for liquidity only, there is the possibility that the borrower does not perform the planned investments in green building. Our question is what happens in that scenario. Since you respond: that if the hotel fails to perform retrofits, it would be ineligible for HGP and the full risk of the loan would rever to the FI

retrofits, it would be ineligible for FGR and the full risk of the loan would rever to the FI.

IFC Response: IFC expects a diversified portfolio of FIs under the RSF, each of which will support a portfolio of green hotels. The eligibility criteria for each FI will be negotiated upfront and tailored to the expected FI pipeline. Once active, an FI will report to IFC quarterly on the active portfolio. Any losses made under the RSF will be evaluated by IFC to ensure the project was eligible. In a case where a hotel has started the greening process and defaults, it would be considered part of the RSF. If the hotel has not begun the greening retrofits, it would be considered ineligible and the full risk of the loan would revert to the FI.

6. Project Components, Outputs and outcomes described in the Pro Doc continue to relate to COVID -19 pandemic. Please note that GEF financing cannot finance activities that are not related to the environment, so Output 1.1 and Ouput 1.2 should be rephrased to include greening aspects of the loans.

IFC Response: This is well noted. All components are inherently tied to the greening benefits of the project. IFC has adjusted this language accordingly.

**IFC Response to 04/27/2021 comments: Thanks.**

## 4. Is the project/program aligned with focal area and/or Impact Program strategies?

### Secretariat Comment at PIF/Work Program Inclusion

N/A

### Agency Response

## 5. Is the incremental/additional cost reasoning properly described as per the Guidelines provided in GEF/C.31/12?

### Secretariat Comment at PIF/Work Program Inclusion

The incremental cost as well asthe financial additionality of GEF guarantees needs to be further clarify; what would happen without our guarantee? Would the size of the financing be smaller-less prone to risky investments?

**Secretariat additional comments 04/06/2021**

Please explain in the doc in this section how including a covenant to achieve 3.0 EDGE as part of the loan would resolve “two birds” with the same stone: (i) lack of liquidity in the short term and (ii) investment in green retrofits. Please reference here to Section 3 where you explain in which eventualities (i.e. borrower not investing in greening the building) the GEF guarantee would not cover the default of a loan.

**Agency Response**

This program provides financial and non-financial additionality to participating FIs in IDA and non-IDA countries. The financial additionality of GEF is related to counter-cyclical provision of capital for FIs during and after COVID-19 pandemic. The needed derisking will enable FIs to continue to provide and sustain financing to SME hotels that are not only adversely affected by the pandemic, but unable to borrow due to high perceived risks.

Concessional finance may be one of the only ways to unlock the needed countercyclical financing, overcoming FI reluctance to lend to the SME hotel segment, their 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.

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 with the global ambition of HGRP to scale across 30 countries. As HGRP represents an innovative, first-of-its-kind structure and many donors are reluctant to be the first to commit particularly if the Facility can only focus on IDA countries. The participation of GEF as an anchor donor will allows IFC to add non-IDA countries that will be attractive for other donors and lower the risk of their participation.

Specially with regards to how GEF's guarantee will affect the cost structure, when IFC sets up RSF, an annual fee is charged to the FI. If an RSF is backed by a first-loss guarantee (FLG) it lends credit enhancement to IFC's RSF pricing model. This credit enhancement lowers the RSF fees IFC can offer to its clients. In the absence of GEF funds providing some protection, a similar RSF structure would be too expensive for FIs and there would be no utilization. Without GEF, IFC would not be able to set up this Facility.

**IFC RESPONSE**: Please see our responses in Section 3 above, as well to Annex A, which address both the dual objectives of short term liquidity and investments in green retrofits, as well as how the project would address non-eligible loans (ie. loans that failed to proceed with EDGE 3.0 certification) would be removed from the RSF portfolio.

**6. Are the project's/program's indicative targeted contributions to global environmental benefits (measured through core indicators) reasonable and achievable? Or for adaptation benefits?**

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

## 7. Is there potential for innovation, sustainability and scaling up in this project?

Secretariat Comment at PIF/Work Program Inclusion

Please elaborate on the durability of this project once the financing platform reaches maturity; is the knowledge transfer through TA part of the long term impact?

Agency Response

If the Program is successful, it will demonstrate that investing during COVID-19 and retrofitting greening hotels, including hotels in developing countries, is a commercially viable business opportunity. HGRP 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 through the ramp up period of the Program, as additional FIs and countries are added and will remain in the first-loss pool to be re-allocated to future projects. As banks become more comfortable with the risks of lending to hotels as they recover from COVID-19 and their risk perception of the segment decreases over time (as well as the anticipated revival of the sector as economic conditions improve), a guarantee would be no longer required to on-lend.

Beyond the direct financing of a new green retrofit business line that will provide local FIs with valuable insight into the operational feasibility of green buildings, IFC will also deploy advisory services alongside financing. Advisory services will be provided directly to the FI clients to enhance their technical knowledge, evaluate their pipeline and familiarize them with the green building standards. Market-level TA will also be deployed as part of IFC's wider EDGE program, that brings the green building standards. Market-level TA will also be deployed as part of IFC's wider EDGE program, that brings together industry groups, trains certifiers and raises awareness of the EDGE product. IFC EDGE teams already have a local

footprint in many of the proposed eligible countries and are already beginning the rollout process for EDGE 3.0, which HGRP can be incorporated into and benefit from. As local teams and long term presence in these markets, IFC EDGE teams will also be available to offer additional TA/Advisory services directly to FIs who do not benefit directly from HGRP, but are made aware of it through other means, including lessons learned and case studies disseminated from experiences with HGRP. This knowledge transfer is also expected to be strengthen by key strategic partnerships, such as the partnership with UNWTO and Booking.com.

## Project/Program Map and Coordinates

**Is there a preliminary geo-reference to the project's/program's intended location?**

### Secretariat Comment at PIF/Work Program Inclusion

Please confirm list of countries in Annex D.

### Agency Response

IFC has provided countries based on its current and developing pipeline with FIs in these specific countries and confirms this list reflects countries where active business development efforts are underway. In each country, IFC would expect to work with several FIs. The names of these potential clients are kept confidential under the transaction reaches Board approval.

## Stakeholders

**Does the PIF/PFD include indicative information on Stakeholders engagement to date? If not, is the justification provided appropriate? Does the PIF/PFD include information about the proposed means of future engagement?**

Secretariat Comment at PIF/Work Program Inclusion

This section needs to be strengthened; comments provided by Priyanka (on collaboration with WBG teams in countries such as Nepal) would be very welcome.

**Additional comments from GEF Sec 04/06/2021**

Please elaborate on the role of UNWTO would play.

**Additional comments from GEF Sec 04/21/2021**

1) Please include indicative information on stakeholder engagement from the initial stakeholder mapping, this section should address information about the future roles and means of future engagement of each stakeholder.

2) Please provide description on UNWTO directly in the PIF.

**Additional comments from GEF Sec 04/27/2021**

Thanks for addition on stakeholder mapping, however if you can, please address brief information about the future roles and means of future engagement of each stakeholder. For instance, what will be the role of tourism ministries, hotel associations and asset management during project implementation?

**Additional comments from GEF Sec 05/05/2021**

*The PIF includes information on stakeholder engagement during project design and but does include details on which Civil Society Organizations were consulted and, in addition, it does not elaborate on any information on activities, plans or measures to engage stakeholders in project preparation. Please ask Agency to provide further information on which civil society organizations were engaged in the early consultations and provide further details on plans and activities on stakeholder engagement* processes during project development

Agency Response

This comment is well noted. Initial stakeholder mapping was done as part of IFC's preliminary survey work, but more detailed stakeholder engagement must be considered at both a priority country and global level. IFC would propose to provide additional details on these efforts as they develop prior to CEO endorsement.

**Additional comments from GEF Sec 04/06/2021**

Please elaborate on the role of UNWTO would play.

**IFC Response: 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.**

Additional comments from GEF Sec 04/21/2021

1) Please include indicative information on stakeholder engagement from the initial stakeholder mapping, this section should address information about the future roles and means of future engagement of each stakeholder.

IFC Response: A new section on the initial stakeholder mapping has been added to the Stakeholders section.

2) Please provide description on UNWTO directly in the PIF.

IFC Response: Confirmed that this has been added to the PIF.

**IFC responses to additional comments from GEF Sec 04/27/2021** :

*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 program'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. IFC has also added this explanation to the proect document.*

**IFC Responses to 05/05/2021 Comments:**

Thank you. As the HGRP program will encompass more than 30 markets, outreach to Civil Society Organizations or other NGOs will be customized based on the local market conditions and stakeholders at the time of IFC engagement with each financial intermediary. As it is not possible to provide one uniform response on a CSO and NGO engagement strategy prior to start of an engagement, IFC proposes to uncheck this section. This should not be interpreted as lack of commitment; as stated in the proposal document, the role of industry groups, NGOs and in certain cases, CSOs, will be critical to ensure that the demand for certified green properties continues to grow organically after the first transaction is complete.

## Gender Equality and Women's Empowerment

### Is the articulation of gender context and indicative information on the importance and need to promote gender equality and the empowerment of women, adequate?

#### Secretariat Comment at PIF/Work Program Inclusion

Needs to be strengthened with specific targets.

**Additional comments from GEF Sec 04/06/2021**

Disaggregation by gender is an important activit, however, please elaborate if women led hotel SMEs would be prioritized or if specific awareness rainsing and training targeting women in leadership positions in the bank but also broader hotel staff (majority of women) would benefit from these trainings.

We would expect logical framework to include gender sensitive indicators.

**Additional comments from GEF Sec 04/21/2021**

Thank you, please provide this description in the PIF directly that IFC cannot prioritize gender-disaggregated indicator under current structure but will explore opportunities on a country by country basis. We however hope to see gender analysis or equivalent socioeconomic assessment prior to CEO Endorsement including efforts to ensure that stakeholder consultations will be gender sensitive for each investment.

**Additional comments from GEF Sec 04/27/2021**

Cleared.

#### Agency Response

This comment is well noted. IFC is aware from its own internal survey results that the hotel industry provides multiple opportunities to address gender gaps. During preliminary scoping, IFC uncovered that women held minority ownership in almost 17 percent of hotel properties. More than 8 percent of properties were women-owned and 99 percent had female representation in management positions. As an industry is dominated by women in the labor force – nearly seven out of ten employees in the hotel industry are female – the project presents unique opportunities to evaluate how gender equality

and the empowerment of women can be better integrated in the project structure. As part of its annual impact reporting from all FI clients, IFC is already gathering data on lending disaggregated by gender, including the number of loans made to women entrepreneurs. Further, building on "job creation" metrics already tracked for its projects, IFC is developing a secondary methodology to track "job preservation". This work, which is expected to be rolled out by the end of IFC's fiscal year, may have further implications for how IFC can distinguish beneficiaries for a sector that relies on a majority female labor force. More consideration must be given to evaluate how IFC can best set appropriate targets and reporting for HGRP. IFC proposes to evaluate these options and include these considerations, as well as gender disaggregated targets (as appropriate), prior to CEO Endorsement.

Additional comments from GEF Sec 04/06/2021

Disaggregation by gender is an important activit, however, please elaborate if women led hotel SMEs would be prioritized or if specific awareness rainsing and training targeting women in leadership positions in the bank but also broader hotel staff (majority of women) would benefit from these trainings. We would expect logical framework to include gender sensitive indicators.

**IFC RESPONSES: IFC believes that women have a crucial role in achieving sound economic growth and poverty reduction. They are an essential part of private sector development. 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.**

Additional comments from GEF Sec 04/21/2021

Thank you, please provide this description in the PIF directly that IFC cannot prioritize gender-disaggregated indicator under current structure but will explore opportunities on a country by country basis. We however hope to see gender analysis or equivalent socioeconomic assessment prior to CEO Endorsement including efforts to ensure that stakeholder consultations will be gender sensitive for each investment.

IFC Response: Comment for CEO endorsement is well noted. We have included the explanation in the PIF.

**IFC Response to GEF Sec 04/27/2021: Thank you.**

## Private Sector Engagement

### Is the case made for private sector engagement consistent with the proposed approach?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

## Risks to Achieving Project Objectives

### Does the project/program consider potential major risks, including the consequences of climate change, that might prevent the project objectives from being achieved or may be resulting from project/program implementation, and propose measures that address these risks to be further developed during the project design?

Secretariat Comment at PIF/Work Program Inclusion

**Additional comments from GEF Sec 04/06/2021**

The ESS and climate risk screening should be provided at PIF level. Please elaborate on the ESS minimum standards as well as the types of project categories you intend to exclude. This section is key.

Please provide more information on the operational risk for the FI to fully deploy investments (US$ 800 M over three years). Even after taking into account IFC's longstanding relationships with FI, there appears to be a high operational risk given the indicated average loan size (US$ 2.5 mn), the number of SME hotels and number of FIs. Please do also clarify the impact of such risk into the design of the guarantee.

Would all of the $GEF 10.5M guarantee be in place regardless of the actual amount of deployed portfolio? It is not the same to guarantee the full deployed portfolio (US$250 M of IFC unfunded RSF) than guaranteeing a fraction of it. The GEF risk would be different; the termsheet somewhat gives an explanation " IFC will consider adjusting the first loss percentage on the Program pool downward by adding new facilities without increasing the first loss". We would welcome additional comments in this section.

**Additional comments from GEF Sec 04/21/2021**

1) Thanks for providing background information on IFC's ESS policy. Please provide justification directly to the PIF/Prodoc and not only in the review sheey. Explain also why preliminary risk categorization is not available now and your plans to carry out assessment on measures to any relevant risks and impacts during project development. Also, provide description on gender from this section to gender section in the PIF, how ESS screening will count gender issues.

2) Cleared.

3) Thanks for clarification, we would welcome a description of how that would work. Since GEF financing10 M represent 2.56% of the US$ 355 M to be deployed in non-IDA countries, how would you send back the guarantee to the GEF? This mechanism should be explained here and in the termsheet.

Additional comments from GEF Sec 04/27/2021

1) Cleared.
3) Thank you, please include a sentence saying that 'TBD' will be confirmed during project preparation as a footnote, and include project number in the reflow table.

Agency Response

**Secretariat Comment at PIF/Work Program Inclusion**

Additional comments from GEF Sec 04/06/2021

The ESS and climate risk screening should be provided at PIF level. Please elaborate on the ESS minimum standards as well as the types of project categories you intend to exclude. This section is key.

**This comment is well noted. 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 seek to review and align such requirements in accordance with IFC's Environmental & Social policies. In the case of HRGP, the project will support a global pool of transactions with FIs across 30 countries; ESS screening will be performed at the individual transaction level, as each client engagement moves forward to financing.**

**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.**

**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.**

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

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

How IFC Applies the Sustainability Framework: IFC's environmental and social due diligence is integrated into IFC's overall due diligence of the business activity under consideration, including the review of financial and reputational risks. IFC considers the risks and impacts of each proposed investment or advisory activity, and whether and how such investment or advisory activity can be expected to contribute to the development of the host country and to broadly benefit its relevant stakeholders in economic, social, and/or environmental terms.

**For each project, IFC creates an E&S Review Summary (ESRS) and an E&S Action Plan (ESAP). Through the assessment IFC weighs the costs and benefits of proposed business activities and articulates its rationale and specific conditions for the proposed activity. The ESRS and ESAP are reviewed and approved by the client. IFC discloses its ESRS along with relevant sponsor E&S documentation on the IFC website. The client discloses project E&S assessment information locally. Projects**

**will engage and consult with Affected Communities to ensure their awareness of the project and provide for an ongoing**

**constructive relationship. For each proposed investment or advisory services project, IFC discloses relevant project information, environmental and social implications, and expected development impact. Information is disclosed prior to consideration by IFC's Board of Directors at:**

**https://disclosures.ifc.org/**

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

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

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

identified in Performance Standards 2 through 8, and those who are likely to be affected by such risks and impacts. The

risks and impacts identification process will consider the emissions of greenhouse gases, the relevant risks associated with a changing climate and the adaptation opportunities, and potential transboundary effects, such as pollution of air, or use or pollution of international waterways.

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

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

http://www.ifc.org/exclusionlist.

IFC will only finance investment activities that are expected to meet the requirements of the Performance Standards within a reasonable period of time. These exclusions are also applied to Financial Intermediaries with whom IFC works, along with additional requirements. Persistent delays in meeting these requirements can lead to loss of financial support from IFC.

Please provide more information on the operational risk for the FI to fully deploy investments (US$ 800 M over three years). Even after taking into account IFC's longstanding relationships with FI, there appears to be a high operational risk given the indicated average loan size (US$ 2.5 mn), the number of SME hotels and number of FIs. Please do also clarify the impact of such risk into the design of the guarantee.

IFC has decades of experience managing risk sharing facilities, including RSF structures dedicated to the SME sector, where portfolios are granular and spread across multiple countries. IFC has found that it is essential that the risk of the assets pooled under the Program – including the pooled first loss – is comprehensively and actively managed by a core IFC team. A team focused on more systematic business development for the RSF also ensures greater up-take. This require close cross-departmental collaboration across IFC's manufacturing and agribusiness (MAS), the financial institutions group (FIG) and the Blended Finance Department, with support from Treasury as needed. This team ensures quality at entry and active portfolio/risk management for the Program. Monitoring and supervision ensure that the financials, utilization and status of the underlying loans are closely tracked in order to address any issues in a timely manner. Further, failure to fully meet the pre-agreed milestones may result in IFC's guarantee coverage being dropped to lower than 50% on the existing portfolio or hotel properties becoming ineligible for IFC guarantee.

Would all of the $GEF 10.5M guarantee be in place regardless of the actual amount of deployed portfolio? It is not the same to guarantee the full deployed portfolio (US$250 M of IFC unfunded RSF) than guaranteeing a fraction of it. The GEF risk would be different; the termsheet somewhat gives an explanation " IFC will consider adjusting the first loss percentage on the Program pool downward by adding new facilities without increasing the first loss". We would welcome additional comments in this section.

GEF's maximum first loss guarantee would be proportional to what was deployed; in the case of lower portfolio, less donor funds would be required.

Additional comments from GEF Sec 04/21/2021

1) Thanks for providing background information on IFC's ESS policy. Please provide justification directly to the PIF/Prodoc and not only in the review sheey. Explain also why preliminary risk categorization is not available now and your plans to carry out assessment on measures to any relevant risks and impacts during project development. Also, provide description on gender from this section to gender section in the PIF, how ESS screening will count gender issues.

IFC Response: Thanks, these have been included.

2) Cleared.

3) Thanks for clarification, we would welcome a description of how that would work. Since GEF financing10 M represent 2.56% of the US$ 355 M to be deployed in non-IDA countries, how would you send back the guarantee to the GEF? This mechanism should be explained here and in the termsheet.

IFC Response: Thanks, we have included responses to this in the Termsheet and provided further explanation on the return of reflows in the Termsheet section.

IFC Responses to GEF Sec 04/27/2021 :

On point (3), we believe this is in reference to the Reflow table. We have added the footnote and project number accordingly. We have also added a point to the Risk section that projects will be screened at the individual transaction level.

Coordination

Is the institutional arrangement for project/program coordination including management, monitoring and evaluation outlined? Is there a description of possible coordination with relevant GEF-financed projects/programs and other bilateral/multilateral initiatives in the project/program area?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

## Consistency with National Priorities

**Has the project/program cited alignment with any of the recipient country's national strategies and plans or reports and assessments under relevant conventions?**

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

## Knowledge Management

**Is the proposed "knowledge management (KM) approach" in line with GEF requirements to foster learning and sharing from relevant projects/programs, initiatives and evaluations; and contribute to the project's/program's overall impact and sustainability?**

Secretariat Comment at PIF/Work Program Inclusion

Yes; there is a whole component with funding from technical assistance (IFC) devoted to Knowledge Management.

Agency Response

## Environmental and Social Safeguard (ESS)

### Are environmental and social risks, impacts and management measures adequately documented at this stage and consistent with requirements set out in SD/PL/03?

Secretariat Comment at PIF/Work Program Inclusion

**Additional comments from GEF Sec 04/06/2021**

Additional details on ESS and climate risk screening should be provided at PIF level. Please elaborate on the ESS minimum standards as well as the types of project categories you intend to exclude.

Climate risk screenings is also required for all GEF projects so please include climate risk screening in this proposal.

https://www.thegef.org/events/gef-and-world-bank-training-climate-risk-screening-climate-change-knowledge-portal

**Additional comments from GEF Sec 04/21/2021**

Thank you, see additional comment provided in the risk section;.

Additionally we need to a written justification in this section why Climate Risk Screening as requested by the GEF cannot be submitted at this time. As you know, this is required for all projects now.

**Additional comments from GEF Sec 04/27/2021**

Cleared

**Additional comments GEF Sec 05/05/2021**

As a GEF Agency, the World Bank is aligned with the GEF Policy on Environmental and Social Safeguards (ESS). In the documentation provided in this PIF, however, the GEF Agency role with respect to its application of ESS by the executing entities are not clear. Please ask the WB, as the GEF Agency for this project, to provide information, in the section on ESS in the portal, on how the WB, as a GEF Agency, will ensure that its ESF will be applied in the project.

Agency Response

Please see IFC's full response on ESS Risks above, as well as the enclosed documentation to the Secretariat on the IFC Sustainability Framework and how climate risk assessments are incorporated through cross-referenced alignment to the IFC Performance Standards. As a GEF Agency, the World Bank Group is aligned with GEF ESS policies. In instances where requirements for private sector projects may differ from the World Bank, IFC seek to review and align such requirements in accordance with IFC's Environmental& Social policies. In the case of HRGP, the project will support a global pool of transactions with FIs across 30 countries; ESS screening will be performed at the individual transaction level, as each client engagement moves forward to financing. Information on how IFC screens for risks, including environmental, social, financial, operational, climate in all of its investment projects is included below.

IFC Response to 4/21/21 Comments:

**A summary discussion of how IFC assesses climates risks through the IFC Sustainability Framework at the project level, including a review of environmental, social, financial, operational, climate and other risks, is outlined below. Each transaction IFC finances 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. 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.**

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

**IFC's Performance Standards are globally recognized as a benchmark for environmental and social risk management in the private sector. The Performance Standards are directed towards IFC's clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. In the case of its direct investments (including project and corporate finance provided through financial**

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

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

**When the project involves existing assets, environmental and/or social audits or risk/hazard assessments can be appropriate and sufficient to identify risks and impacts. If assets to be developed, acquired or financed have yet to be defined, the establishment of an environmental and social due diligence process will identify risks and impacts at a point in the future when the physical elements, assets, and facilities are reasonably understood. The risks and impacts identification process will be based on recent environmental and social baseline data at an appropriate level of detail. The process will consider all relevant environmental and social risks and impacts of the project, including the issues identified in Performance Standards 2 through 8, and those who are likely to be affected by such risks and impacts. The**

**risks and impacts identification process will consider the emissions of greenhouse gases, the relevant risks associated with a changing climate and the adaptation opportunities, and potential transboundary effects, such as pollution of air, or use or pollution of international waterways.**

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

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

**http://www.ifc.org/exclusionlist.**

Additional comments from GEF Sec 04/21/2021

Thank you, see additional comment provided in the risk section;.

Additionally we need to a written justification in this section why Climate Risk Screening as requested by the GEF cannot be submitted at this time. As you know, this is required for all projects now.

IFC Response: Thank you. IFC has included the text confirming that climate risk is screened at the project level in the ESS section.

**IFC Response to comments from GEF SEC 4/27/21**: Thank you.

IFC Response to GEF Sec 05/05/2021:

For the implementation of GEF projects, IFC acts as an Executing Agency of the World Bank Group. 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 that of the World Bank's Environmental and Social Framework (ESF), the World Bank will seek to review and align such requirements in accordance with the ESF and share this review with the GEF Secretariat in advance of CEO endorsement. This language has been added to the project proposal and the termsheet.

art III – Country Endorsements

Has the project/program been endorsed by the country's GEF Operational Focal Point and has the name and position been checked against the GEF data base?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Termsheet, reflow table and agency capacity in NGI Projects

Does the project provide sufficient detail in Annex A (indicative termsheet) to take a decision on the following selection criteria: co-financing ratios, financial terms and conditions, and financial additionality? If not, please provide comments. Does the project provide a detailed reflow table in Annex B to assess the project capacity of generating reflows? If not, please

**provide comments. After reading the questionnaire in Annex C, is the Partner Agency eligible to administer concessional finance? If not, please provide comments.**

Secretariat Comment at PIF/Work Program Inclusion

**Please note the GEF is suggesting a Guarantee size of US$ 10 M.**

1. Provide justification about how GEF's $10M to guarantee IFC's $250M guarantee in non-IDA is essential for the transaction. GEF's guarantee would represents a 4% of the IFC guarantee. Moreover, IFC has provided in the past Risk Sharing Facilities without first loss guarantees to IFC funds. Donor's guarantees applied to the Originator side. Provide full description on why the shift on who to hedge.

2. There is not enough information to assess any financial terms. Following the standard Blended Finance principles and given the high first loss probability, GEF´s put option premium would have to be highly priced to ensure that private markets are not altered. Reflows are designed at the global RSF pool, subordinating GEF to IFC. Even when pooling risk is a great idea, it incurs in a higher probability of executing the GEF's put.

3. What would the guarantee cover (Principal and interest or only principal; are you planning on performance guarantees)? How do you intend to call the guarantee? What are the mechanisms the IFC intends to pursue for loan recovery (and repay guarantee)? The coordination with other co-guarantors is key: please elaborate how the IFC would avoid commingling of guarantees between IDA and non-IDA countries borrowers. Also please elaborate what the additional co-guarantors of non-IDA countries would be pari-passu with GEF guarantee (and perhaps proportional?) please provide guidance on guarantee premium to be paid to the GEF.

**Additional comments GEFSec as of 06/04/2021**

- Please provide co-financing table in the termsheet as described in Table C
- "*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"* Please confirm that the 50% would apply for the non-IDA countries or it is an average for IDA and Non-IDA countries.
- Understanding that the GEF guarantee will be "compartmentalized" to the non-IDA countries, what is the envisioned treatment of GEF guarantee vis-a-vis other donors in "In cases where the potential portfolio is large, demanding a larger FLG that requires two donors, the FLG will be structured on a prorata basis for both donors". Please confirm we will be treated pro-rata <u>and pari passu</u>. Please confirm if there is any scenario in which the GEF guarantee could cover defaults in IDA countries.

1. The paragraph: "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". should be well explained in the termsheet as well. Would the GEF guarantee cover a default on a loan that serves to cover liquidity purposes and not investment in green building? i.e. GEF guarantee will only cover IFC losses caused by defaults of borrowers that pursued their green retrofitting; this was explained earlier in the text of the proposal but would welcome it here (add Use of Proceeds section).
2. Financial additionality: "countercyclical financing to FIS'" is ok; but GEF additionality should include that this financing would include provisions for hotels to pursue greening of their operations. Also, it seems to imply that the maturity of the loan can be lengthened thanks to the FL; if yes, please state as financial additionality of the GEF financing. Please here and add throughout the document for consistency.

the document for consistency.

3. Are the lending products offered from FIs to clients structured so that the energy savings will pay back the loans? If that is the case, what is the technology risk? (in other words, repayment would not be tied to credit worthiness of the SME hotel but to the performance of the selected technologies in the implementation of EE).

4. GEF team will provide additional edits to the termsheet in track changes in a separate email; clarifications refer to the maturity of 12-year life: investments and ramp ups periods do not match with max maturity of 5 years + 1 year to "clean up portfolio" we want to understand the tenor of the guarantee (12 years) for the full portfolio. Is this a revolving line?

5. The updated proposal considers that the guarantee fee is part of the waterfall and subordinated in payment to other recoveries. please treat the guarantee premium as a fee to be covered with priority in the waterfall .

6. Provide an indication of the premium of the guarantee.

7. Provide an explanation with of the text in the box: " 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

8. Moral hazard from FIs: since the covenant requires "having started an EDGE3.0" certification to not be excluded after 30 months of the RSF portfolio, how do you intend to address FIs moral hazard to start the certification process and sharing losses with you. Do you intend to include an additional milestone (precondition) on the health of the borrower at the time they start the certification?

**Additional comments 04/21/2021**

Comment on co-financing: Thanks for adding co-financing table in the termsheet but please provide it under co-financing row, not financing row. Also, revise formatting of the termsheet in the PIF.

- Comment on non-IDA application: Thanks, please specify it in the PIF/Prodoc too for consistency.

- pro-rata/pari passu: comment on Thank you please also provide description directly in the pro/doc too.

1) Cleared.

2) Cleared. Confirm you added language to the prodoc.

3) Cleared.

4) Cleared.

5) Cleared. Confirming the agency added language to the PIF and prodoc.

6) Please provide this indicative range of expected premium in the termsheet. Please rearrange the termsheet to include fee outside of the waterfall.

7) Cleared.

8) I still see that the FI, has an incentive to share with IFC 50% of losses instead of incurring on 100% itself. The GEF advises, ahead of CEO endorsement to elaborate on further provisions in the loan documents between IFC and FI that would prevent this from happening.

9) New comment: we would welcome a description of how if not all financing is deployed, how you will send back the guarantee to the GEF?

GEF Guarantee represents 2.56% of the US$ 355 M or 3.64% of US$ 250M IFC RSF (please note that we need to confirm IFC exposure to calculate GEF guarantee %, as per my comments in co-financing section, it is unclear) to be deployed to non-IDA countries. If after the investment period of 3 years, this portfolio is lower, how would you return guarantee back to the GEF?

10) Please see comment on co-financing section and apply throughout the document and in the termsheet.

**Additional comments from GEF Sec 04/27/2021**

- co-financing table: cleared
- non-IDA: cleared
- pro rata, pari passu: cleared

6) cleared
8) Noted, thanks
9) The question on the mechanics of returning the guarantee if not all portfolio is deployed after year 3 should be included in the termsheet, although addressed in the Q&A should be included in the termsheet.

- 10) Cleared
-

**New comments on TS**

- 11. The termsheet refers to US$ 10M guarantee in several sections from the GEF when it would be US$ 9.132 M -net of fees- (check section on Project Financing, GEF proposed financing, currency risk, exposure limits, cash waterfall etc)
- 12. On the fees: we do not understand the last bullet point "the percentage portion used for fee sharing will be based on the target PFLG percentage (e.g. 30% for a PFLG with a 30% target first loss)." Please explain
- 13. The termsheet is missing a section on how at maturity date, you will determine guarantee amount (if any) to be sent back to the GEF: please include a separate paragraph that includes wording on recovery amount/unused amount. In that paragraph you can use the same language provided on the waterfall which means " Any proceeds from recovery of those defaulted assets will go first to IFC to make IFC whole, and subsequently to GEF"
-
- **New comments on Reflow Table:**
- 14. Additionally, the reflow table includes a sentence on fees: "Final calculations to be made at the time of each risk participation with the local FI" we would need to agree on fee % for the GEF before CEO endorsement.

15. On the frequency of the Reflow: please include semi annual guarantee fee and one final repayment for any unused or recovered guarantee amount.

Agency Response

*Please note the GEF is suggesting a Guarantee size of US$ 10 M.*

*IFC acknowledges the guarantee adjustment to US$10M; IFC's ability to deliver the full impact expected from HGRP will be dependent on raising additional funds from other donors to provide a sufficient FLG pool to support IFC's US$250 million* *guarantee.*

*1. Provide justification about how GEF's $10M to guarantee IFC's $250M guarantee in non-IDA is essential for the transaction. GEF's guarantee would represents a 4% of the IFC guarantee. Moreover, IFC has provided in the past Risk Sharing Facilities without first loss guarantees to IFC funds. Donor's guarantees applied to the Originator side.*

*IFC has provided justification for the financial additionality of the GEF funds above and we would reiterate that GEF funds are critical for the Facility to move forward. IFC would also like to clarify that it will likely need to raise additional donors to reach this US$250 target; in the termsheet IFC anticipates at least one additional donor if GEF were able to provide the full US$15 million; with a US$10 million guarantee from GEF, it may be more likely that two donors will be required. IFC has several climate funds in house and discussions are ongoing as to where additional guarantee funds can be sourced.*

*Specifically with regards to other risk-sharing facility structures, IFC has provided other RSFs without guarantees in the past. Generally, this type of RSF can be used when sectors are more mature and the underlying portfolio is diversified, limiting IFC's potential risk and making additional credit enhancement unnecessary. However, the structure and purpose of HGRP is to catalyze a new lending product, provide relief to a distressed sector and ensure pricing is acceptable for the local FIs. These objectives cannot be accomplished under a traditional RSF structure and require a first loss guarantee.*

*Provide full description on why the shift on who to hedge.*

*The placement of the GEF funds in the first loss position provides protection to IFC, as well as credit enhancement to IFC's RSF structure. By subordinating GEF to IFC, IFC is able to offer acceptable pricing to the FIs that allows HGRP to be feasible, a benefit that would not be available if the guarantee were provided instead to the FI. IF IFC has misinterpreted this question, we are happy to provide further clarification to the Secretariat.*

*2. There is not enough information to assess any financial terms. Following the standard Blended Finance principles and given the high first loss probability, GEF´s put option premium would have to be highly priced to ensure that private markets are not altered. Reflows are designed at the global RSF pool, subordinating GEF to IFC. Even when pooling risk is a great idea, it incurs in a higher probability of executing the GEF's put.*

The proposed RSF is mainly a risk mitigant to enable FIs to lend to the hotels to enable them to survive the COVID crisis and prepare for post-COVID tourism recovery. IFC would like to clarify that the RSF pool is not at the global level. GEF first loss will be limited to non-IDA countries which - on average - have a better credit rating, stronger FIs and a higher quality underlying hotel portfolios. The selection criteria will also direct lending to hotels which were performing well prior to the

COVID crisis. The recovery of the tourism economy is also likely to be faster and more robust in non-IDA markets where COVID recovery efforts such as vacation programs and government support for the tourism sector, has been more comprehensive. Non-IDA countries are actually better suited to benefit from the HGRP structure, without loss of capital expected for IDA-only portfolios. Given these factors, the probability of GEF RSF calls is lower than a guarantee focused solely on IDA countries. Loans made under the RSF are also secured, with some concessionality embedded in the timing of payments, as losses incurred are anticipated to be recouped and reflowed to GEF over time (as detailed in the cash waterfall documents submitted in the supporting materials).

With regards to ensuring the private markets are not altered, IFC would like to emphasize that the HGRP structure is an innovative model created by IFC to reach the smaller hotel segment. There are no comparable products in the market or similar instruments available that would offer commerical alternatives to this model. With the current risk perceptions of the tourism sector, fees are so high that the model is not feasible to execute commercially. 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. The proposed pooled FLG 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 achieve the pricing compared to the prohibitively high commercial rates which would be a non-starter for the RSF - thus providing the required financing at a rate that is affordable for the banks and the ultimate beneficiaries.

*3. What would the guarantee cover (Principal and interest or only principal; are you planning on performance guarantees)? How do you intend to call the guarantee? What are the mechanisms the IFC intends to pursue for loan recovery (and repay guarantee)? The coordination with other co-guarantors is key: please elaborate how the IFC would avoid commingling of guarantees between IDA and non-IDA countries borrowers. Also please elaborate what the additional co-guarantors of non-IDA countries would be pari-passu with GEF guarantee (and perhaps proportional?) please provide guidance on guarantee premium to be paid to the GEF.*

The structure of the project anticipates that the guarantee will cover principle and interest; performance guarantees are not considered at this point. Calls will be structured similarly to other RSFs that IFC has structured in the past with GEF, including CHUEE (GEF ID 2624).

The loan recovery and repayment process will likewise be similar to previous IFC-GEF RSF projects, structured based on quarterly reporting from the client FI detailing operations, payments, retrofits and overall portfolio health. The FI will submit portfolios that have defaulted to IFC, IFC will let the guarantor (or guarantees, in the case of *pari pasu* pooled FLG) know of defaults. For loans that have defaulted, recovery is done by the FI. Loans in the portfolio will be secured. The FI will be

recovering from the underlying portfolio and will share recovery with IFC on 50/50 basis. IFC will deduct unpaid fees and expenses and return the balance to the donors. This process has been outlined in the supporting materials provided to the Secretariat.

With regards to other donors, IFC would have a separate guarantee agreement with each donor which will outline the conditions of the guarantee, customized the specific criteria of each donor. In countries where multiple donors are eligible, shares will be prorata. Donor pools are kept separated so there is no comingling. In cases were the potential portfolio is large, demanding a larger FLG that requires two donors, the FLG will be structured on a prorata basis for both donors.

IFC has not determined the risk sharing fees for these countries, so cannot provide estimates of guarantee fees at this time. Fees will be known by time of CEO endorsement.

**Additional comments GEFSec as of 06/04/2021**

- Please provide co-financing table in the termsheet as described in Table C

**This has been added.**

- "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" Please confirm that the 50% would apply for the non-IDA countries or it is an average for IDA and Non-IDA countries.

**IFC Response to 4/6**

**The cofinancing table has been added to the Termsheet. IFC confirms that the 50% would only apply to Non-IDA countries.**

- Understanding that the GEF guarantee will be "compartmentalized" to the non-IDA countries, what is the envisioned treatment of GEF guarantee vis-a-vis other donors in "In cases where the potential portfolio is large, demanding a larger FLG that requires two donors, the FLG will be structured on a prorata basis for both donors". Please confirm we will be treated pro-rata and pari passu. Please confirm if there is any scenario in which the GEF guarantee could cover defaults in IDA countries.

**IFC Response to 4/6**

**IFC confirms that in cases where two donors may participate in the FLG, donors would be pro-rata and pari passu. IFC confirms that the GEF Guarantee will be separate from IDA countries and will not cover any defaults in IDA.**

1. The paragraph: "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

the necessary investment to achieve green building certification which can either be EDGE, LEED or any local country green building certification acceptable to IFC”. should be well explained in the termsheet as well. Would the GEF guarantee cover a default on a loan that

serves to cover liquidity purposes and not investment in green building? i.e. GEF guarantee will only cover IFC losses caused by defaults of borrowers that pursued their green retrofitting; this was explained earlier in the text of the proposal but would welcome it here (add Use of Proceeds section).

IFC Response to 4/6

IFC has revised the termsheet to clarify that only the loans that meet the greening criteria will be eligible for inclusion in the RSF. The eligibly criteria will be embedded in the agreement between IFC and the FI. To be eligible, hotels must be in good standing as of March 2020; funding will be tied to greening elements; if progress is not observed in 18-24 months they will be pulled out of the portfolio. Defaults that may occur before greening are at the risk of the FI, who is responsible for the due diligence. FI clients will report to IFC quarterly on the performance of the portfolio and all hotels under the RSF will be monitored for compliance. Issues that arise will be tracked and shared with IFC.

2. Financial additionality: “countercyclical financing to FIS’” is ok; but GEF additionality should include that this financing would include provisions for hotels to pursue greening of their operations. Also, it seems to imply that the maturity of the loan can be lengthened thanks to the FL; if yes, please state as financial additionality of the GEF financing. Please here and add throughout the document for consistency.

IFC Response to 4/6

RSF availability time period is fixed; no loans will be eligible to be extended.

3. Are the lending products offered from FIs to clients structured so that the energy savings will pay back the loans? If that is the case, what is the technology risk? (in other words, repayment would not be tied to credit worthiness of the SME hotel but to the performance of the selected technologies in the implementation of EE).

IFC Response to 4/6

The FIs will provide 5-year loans that will support a mixture of (i) immediate retrofits/improvements that bundle energy and water efficiency with near-term modernization needs (such as contact-free check-in, retrofitting capital equipment and phone operated digital keycards) and (ii) planned major renovations that would incorporate efficiency upgrades that lower 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. Only commerical proven retrofit technologies will be eligible; the project will carry no technology risk.

4. GEF team will provide additional edits to the termsheet in track changes in a separate email; clarifications refer to the maturity of 12-year life: investments and ramp ups periods do not match with max maturity of 5 years + 1 year to "clean up portfolio" we want to understand the tenor of the guarantee (12 years) for the full portfolio. Is this a revolving line?

IFC Response to 4/6

This is not anticipated to be a revolving line. The 12-year life is based on the outermost lending window based on the following: IFC will have three years to make investments to FIs; FIs will have three years to onlend; each sub-loan to a hotel is eligible for a five-year term, reserving the remaining balance of 1 year for portfolio clean up and closure.

the remaining balance of 1 year for portfolio clean up and closure.

[3 years (IFC investment window)] + [3 years (FI investment window)] + [5 years (max loan term)] + [1 year (cleanup/closure)] = 12 year Facility life.

5. The updated proposal considers that the guarantee fee is part of the waterfall and subordinated in payment to other recoveries. please treat the guarantee premium as a fee to be covered with priority in the waterfall .

IFC Response to 4/6

IFC confirms that the GEF guarantee fees will be pari passu to IFC's Risk Sharing Fees.

6. Provide an indication of the premium of the guarantee.

IFC Response to 4/6

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. IFC expects guarantee premium between 6 – 10% depending on the composition of the portfolio. Actual risk sharing fees will be lower, without which the project will not proceed.

7. Provide an explanation with of the text in the box: " 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

IFC Response to 4/6

IFC considers that incentives between IFC and the donors providing the FLG are well aligned in this regard. IFC has the incentive to maximize the amount of lending possible using this structure, creating an inherent incentive to adjust the first loss percentage in order to maximize that lending. Further, IFC anticipates that over time, as banks become more comfortable with the risks of lending to hotels as they recover from COVID-19 and their risk perception decreases, as well as the anticipated revival of the sector, a guarantee would be no longer required to on-lend. The success of the project could 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.

8. Moral hazard from FIs: since the covenant requires "having started an EDGE3.0" certification to not be excluded after 30 months of the RSF portfolio, how do you intend to address FIs moral hazard to start the certification process and sharing losses with you. Do you intend to include an additional milestone (precondition) on the health of the borrower at the time they start the certification?

IFC Response to 4/6

The moral hazard is mitigated by the fact that IFC only covers 50% of the portfolio so the FI is unprotected for the remaining 50%. First loss provided by GEF is not extended to the local banks to minimize the moral hazard.

The eligibility criteria for each FI will be agreed upon as part of IFC's due diligence process and will ensure that both eligible hotels have both the intention and ability to complete greening objectives. FIs must agree to this eligibility criteria and accordingly will select hotels to be part of the hotel pool. The financial health of the hotel will be assessed by the FI at the time of disbursement to qualify for inclusion in the portfolio. Milestones by which progress must be made on greening will also be clearly articulated and embedded in the agreement between IFC and an FI client. If progress has not been made within a certain set period, the project will be removed from the portfolio of eligible projects under the RSF.

Here again, we see both IFC and the FI are well aligned to only offer loans to eligible hotels willing and able to meet the retrofit requirements, as both remain exposed to potential losses should the projects fail. An FI also has the potential to bear the full loss if IFC deems the hotel did not meet key eligibility criteria, such as progressing on retrofits, so they are well aligned on ensuring only eligible projects are put forward for financing.

Additional Comments 4/21/21:

Comment on co-financing: Thanks for adding co-financing table in the termsheet but please provide it under co-financing row, not financing row. IFC: done.

Also, revise formatting of the termsheet in the PIF.

- Comment on non-IDA application: Thanks, please specify it in the PIF/Prodoc too for consistency. IFC: done.

- pro-rata/pari passu: comment on Thank you please also provide description directly in the pro/doc too. IFC: done.

1) Cleared.

2) Cleared. Confirm you added language to the prodoc. IFC: Confirmed, this has been added to the Termsheet.

3) Cleared.

4) Cleared.

5) Cleared. Confirming the agency added language to the PIF and prodoc. IFC: Thanks.

6) Please provide this indicative range of expected premium in the termsheet. Please rearrange the termsheet to include fee outside of the waterfall. IFC: Confirming fee section has been separated in the termsheet.

7) Cleared.

8) I still see that the FI, has an incentive to share with IFC 50% of losses instead of incurring on 100% itself. The GEF advises, ahead of CEO endorsement to elaborate on further provisions in the loan documents between IFC and FI that would prevent this from happening.

IFC: Comment is well noted and can be discussed further. The eligibility criteria would be part of the loan criteria, with the portfolio identified

IFC: Comment is well noted and can be discussed further. The eligibility criteria would be part of the loan criteria, with the portfolio identified upfront. IFC examines the portfolio quarterly and reviews all losses for eligibility as part of its standard documentation and supervision.

**9) New comment: we would welcome a description of how if not all financing is deployed, how you will send back the guarantee to the GEF? GEF Guarantee represents 2.56% of the US$ 355 M or 3.64% of US$ 250M IFC RSF (please note that we need to confirm IFC exposure to calculate GEF guarantee %, as per my comments in co-financing section, it is unclear) to be deployed to non-IDA countries. If after the investment period of 3 years, this portfolio is lower, how would you return guarantee back to the GEF?**

IFC: Thanks for the question. IFC believes it has a strong pipeline across multiple FIs in multiple countries and does not foresee an issue deploying this funding within the three-year investment window. Assuming IFC is successful at filling up the RSF, the FLG amount from GEF will be held by IFC for the 12-year project lifecycle. If the total portfolio was smaller than envisioned during design, after the 3-year IFC investment window (when no new agreements with FIs could be added to the first-loss pool), excess funding above what was required to be held in place by the existing FI legal agreements would be reflowed back to the GEF Trustee. Reflows would follow the same procedure IFC uses for all blended concessional finance projects, including with GEF, which include closure of the trust fund account and a notification of reflows. In the case of GEF, as IFC works with the World Bank, reflows are made to the GEF Trustee account and IFC notifies the World Bank GEF Coordination team of the transfer.

**10) Please see comment on co-financing section and apply throughout the document and in the termsheet.**

IFC: Confirming that we have addressed this comment and aligned the Termsheet and the PIF accordingly.

IFC responses to additional comments from GEF SEC 4/27/21: *Thank you. Please find responses to each point below.*

9) The question on the mechanics of returning the guarantee if not all portfolio is deployed after year 3 should be included in the termsheet, although addressed in the Q&A should be included in the termsheet.

IFC Response:*A section on unused funds has been added to the TS and the potential reflow (if applicable) has been added to Annex B.*

**New comments on TS**

11) The termsheet refers to US$ 10M guarantee in several sections from the GEF when it would be US$9.132 M -net of fees- (check section on Project Financing, GEF proposedfinancing, currency risk, exposure limits, cash waterfall etc)

IFC Response: *This has been addressed throughout the termsheet, using net-of-fees calculation for the guarantee and separating the Agency fee in new line.*

12) On the fees: we do not understand the last bullet point “the percentage portion used for fee sharing will be based on the target PFLGpercentage (e.g. 30% for a PFLG with a 30% target first loss).” Please explain.

IFC Response: *In this case, an indicative example may be helpful. Take the example of a client FI where GEF’s funding took 30% first-loss and IFC’s guarantee fee was 2%. In this case, GEF’s portion of the fee would be calculated as 30% of the total 2% fee.*

13) The termsheet is missing a section on how at maturity date, you will determine guarantee amount (if any) to be sent back to the GEF: please include a separate paragraph that includes wording on recovery amount/unused amount. In that paragraph you can use the same language provided on the waterfall which means “ Any proceeds from recovery of those defaulted assets will go first to IFC to make IFC whole, and subsequently to GEF”

IFC Response: *We have added separate sections to the Termsheet that specifically address unused portions of funding and recovery, as well as the mechanism for return.*

**•New comments on Reflow Table:**

14. Additionally, the reflow table includes a sentence on fees: “Final calculations to be made at the time of each risk participation with the local FI” we would need to agree on fee % for the GEF before CEO endorsement.

IFC Response: *Fees charged by IFC will be negotiated with the client and be tailored for the market/client context for each individual transaction. Referencing IFC's clarification under point (12), IFC has proposed the following in Annex B:*

*Guarantee Fee for GEF will be set as a percentage portion of GEF PFLG as a portion of the total IFC risk sharing fee up to 1.75%. Final calculations will be made at the time of each risk participation agreement with an FI.*

15. On the frequency of the Reflow: please include semi annual guarantee fee and one final repayment for any unused or recovered guarantee amount.

IFC Response: *The semi-annual guarantee fee, unused funds and final repayment has been included in the Termsheet.*

## EFSEC DECISION

## RECOMMENDATION

**Is the PIF/PFD recommended for technical clearance? Is the PPG (if requested) being recommended for clearance?**

Secretariat Comment at PIF/Work Program Inclusion

## ADDITIONAL COMMENTS

**Additional recommendations to be considered by Agency at the time of CEO endorsement/approval.**

Secretariat Comment at PIF/Work Program Inclusion

## view Dates

| | PIF Review | Agency Response |
|---|---|---|
| First Review | 3/9/2021 | 3/24/2021 |
| Additional Review (as necessary) | 4/6/2021 | 4/13/2021 |
| Additional Review (as necessary) | 4/20/2021 | 4/23/2021 |
| Additional Review (as necessary) | 4/27/2021 | 4/28/2021 |
| Additional Review (as necessary) | 5/5/2021 | 5/6/2021 |

## PIF Recommendation to CEO

## Brief reasoning for recommendations to CEO for PIF Approval