IFC-GEF Greener Shipping Investment Platform

Review PIF and Make a recommendation

Basic project information

GEF ID
10501
Countries
Global
Project Name
IFC-GEF Greener Shipping Investment Platform
Agencies
World Bank, IFC
Date received by PM
3/18/2020
Review completed by PM
PIF

Part I – Project Information

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

1. The concept describes an investment that potentially will have a transformative impact on the sector’s climate footprint. The concept will hopefully be able to benefit from the fact that the shipping sector already gathered under IMOs leadership, in the “global maritime energy efficiency partnership”.

The strategy of retrofitting new technologies to the existing fleet is probably the most optimal for getting traction in the fastest possible way.

The focus of the concept to start to address the Heavy Fuel Oil, is indeed an important step towards greening the shipping industry. But it is important to note that it is essential that the global shipping industry continues innovative development of ways to propel their ships.
As part of output 2.2 “delivering flagship greener shipping knowledge piece”, it may be needed to gather industry partners for a face to face interaction, to ensure proper uptake of the lessons learned.

**All comments addressed**

**Additional comments 04/18/2020**

1. While the project is mapped to Climate Change, Rio markers are both 0 for CC Mitigation and Adaptation – please amend.

**Agency Response**

IFC agrees. We are open to ongoing discussions with GEF Secretariat on the most effective venue/fora to hold these discussions. The Platform would also seek to collaborate with IMO, which has expressed support for the Platform. The participation of key industry players representing both the public and private sector, will be vital for dissemination of learnings from the Platform.

**Agency response 4/20:**

This has been corrected in the Portal (mitigation marker is 2).

Pursuant to a comment received via email on 4/18, IFC has also added the expected other executing private sector partners (Cargill, Mitsui and Maersk) to the Project Information.

**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**

1. The concept need to include a number under core indicator 11.
2. The GHG target of 6.7 million ton over 10 years seems low for a project with this level of co-financing. Another section says 15 years, which requires clarification.

3. The section “alignment with GEF focal areas…” mentions the ABNJ objective of the GEF 7 IW strategy and further, pollution and fisheries is mentioned. It seems that this alignment is loose indeed, especially if focusing directly on the GEF 7 outcome and output indicators

1. Emission reductions: the methodology to calculate emission reductions is straightforward given it involved fuel savings. Cost of emission reductions claimed seems to be slightly higher than GEF average, but such average is highly influenced by GHG results in the LULUCF sector, which are not necessarily comparable to this sector. Estimates are therefore acceptable for the GEF.

   The mechanism for the validation by Maersk of the proposed intervention in terms of its theoretical capacity to produce the expected savings of the saving needs to be better explained. Would Maersk act as an “independent” ex ante validator of each project, effectively setting the benchmark for the project performance? How does that relates to the fact that Maersk is also an investor in the JV? Any conflict?

Comments 04/02

1. The project still does not have an estimated number under core indicator 11. I see this being included in the PIF uploaded, but not in the portal. Further on this specific indicator. For an investment with a global impact and working with the entire shipping sector having 120 people identified as beneficiaries is too low. Please re-estimate

2. Thank you for the clarification provided in the updated version. We are in agreement that the time of accrual of mitigation outcomes (emission reductions) should extend well beyond the investment period, and correspond to the useful lifetime of the physical assets being procured with each one of the individual investments done during the investment window.

   For guidance on how GEF recommends to estimate GHG emission reductions, please refer to: http://www.stapgef.org/node/1587

   With regards to direct emission reductions (both during- and post-project): could you please send us the calculation sheets with the key assumptions based on the data currently available? We would like to understand how you reached the 6.7M value.

All comments addressed
Is there a rough benchmark of USD/CO2t that you are using as reference and is this based on previous investments/consistent with other investments done in this area by IFC?

With regards to indirect emission reductions, please also clarify how the current number is achieved and the relative assumptions.

3. Please consider tagging the Large Marine Ecosystem tag of the project too, considering the impact shipping industry has to the EEZs.

**Agency Response**

*The concept need to include a number under core indicator 11.*

Noted. IFC proposes as an initial set of beneficiaries as 120 ships that are expected to be retrofitted with investment from the Platform during the initial test phase. We note the GEF Portal requests beneficiaries to be disaggregated by gender, which is not applicable to this project.

*The GHG target of 6.7 million ton over 10 years seems low for a project with this level of co-financing. Another section says 15 years, which requires clarification.*

IFC would like to provide several points of clarification. First, to clarify timing, IFC would anticipate making investments during the seven-year active investment window and monitoring the performance of those investments throughout the 10-year Platform period. The investment window and Platform life should be distinguished from estimates of expected carbon savings created by Platform investments, which are based on an expected initial 10-year asset life. IFC standard methodology relies on annual estimates of carbon savings; for this project, we have applied methodology specific to energy efficiency investments that was developed by the Climate Investment Funds (CIFs).

Initial estimates of GHG impact, totaling 1.8 million tonnes of CO2 are based on the Platform’s initial capitalization of $155 million. If the business model is proven and the Platform scales, GHG savings would be expected to rise to approximately 20.4 million tonnes of CO2 across the asset life of the investments. As the Platform will be initially capitalized with $155 million, IFC proposes to record 1.8 million tonnes of CO2 as direct carbon savings, and the remaining expected 18.6 million tonnes as indirect savings, which will be validated after the Platform is operational. A spreadsheet detailing this methodology and calculation has been shared with the Secretariat.

*The section “alignment with GEF focal areas…” mentions the ABNJ objective of the GEF 7 IW strategy and further, pollution and fisheries is mentioned. It seems that this alignment is loose indeed, especially if focusing directly on the GEF 7 outcome and output indicators.*
IFC concurs and has focused the Platform’s alignment more tightly on GEF-7 Climate Change outcomes. However, IFC would note that there is a strong, albeit indirect link, between the reduction of HFO and the reduction of marine pollution, including reduced oil spills, contaminated bilge water and port pollution.

Emission reductions: the methodology to calculate emission reductions is straightforward given it involved fuel savings. Cost of emission reductions claimed seems to be slightly higher than GEF average, but such average is highly influenced by GHG results in the LULUCF sector, which are not necessarily comparable to this sector. Estimates are therefore acceptable for the GEF.

Well noted.

The mechanism for the validation by Maersk of the proposed intervention in terms of its theoretical capacity to produce the expected savings of the saving needs to be better explained. Would Maersk act as an “independent” ex ante validator of each project, effectively setting the benchmark for the project performance? How does that relates to the fact that Maersk is also an investor in the JV? Any conflict?

As an anchor investor, Maersk Tankers is risking their own capital. If they wish to ensure satisfactory commercial returns, their incentives are aligned to fairly evaluate the proposed technology and be transparent in the methodology used to predict performance.

**Additional Comments, April 2:**

1. The project still does not have an estimated number under core indicator 11. I see this being included in the PIF uploaded, but not in the portal. Further on this specific indicator. For an investment with a global impact and working with the entire shipping sector having 120 people identified as beneficiaries is too low. Please re-estimate.

   After discussions with IFC industry teams, a revised estimate has been resubmitted.

2. Thank you for the clarification provided in the updated version. We are in agreement that the time of accrual of mitigation outcomes (emission reductions) should extend well beyond the investment period, and correspond to the useful lifetime of the physical assets being procured with each one of the individual investments done during the investment window.

   For guidance on how GEF recommends to estimate GHG emission reductions, please refer to: http://www.stapgef.org/node/1587

   With regards to direct emission reductions (both during- and post-project): could you please send us the calculation sheets with the key assumptions based on the data currently available? We would like to understand how you reached the 6.7M value.

   Is there a rough benchmark of USD/CO2t that you are using as reference and is this based on previous investments/consistent with other investments done in this area by IFC?
With regards to indirect emission reductions, please also clarify how the current number is achieved and the relative assumptions.

GEF Secretariat's comments are GHG calculations and asset life are well noted. Initial estimates based on a 15-year asset life have been revised downwards to 10 years, to account for technologies performing in a new shipping environment. As requested, IFC has provided a spreadsheet clarifying the assumptions underlying the GHG calculations.

3. Please consider tagging the Large Marine Ecosystem tag of the project too, considering the impact shipping industry has to the EEZs.

The tag for Large Marine Ecosystems has been added.

Co-financing

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
Please clarify the IFC co-financing. It is unclear from the termsheet if the IFC is to provide additional finance on top of the GEF 13.5M tranche. From the project document, it would seem that IFC intends to also provide 13.5 mil, but it is unclear if this is intended as channeling the GEF resources, or in addition to the GEF resources. Needs to be clarified.

Additional comments 04/02
The co-financing amount of others (institutional investors, impact funds, DFIs) is different from Table C ($99M) and the termsheet ($98.5M)

All comments addressed

Agency Response
All blended concessional finance investments made by IFC require an IFC co-investment. IFC’s concessional co-investment model ensures incentives are aligned and that donor financing can take advantage of IFC’s extensive due diligence, project monitoring and supervision cycle without incurring additional costs.

**Additional Comments - April 2, 2020:**

IFC anticipates co-investing $13.5 million into the Platform. The total investment from IFC and IFC-as-implementing-agent-for-GEF, would therefore be anticipated to total $27 million. The total estimated co-financing, i.e. from other institutional investors, impact funds or DFIs will total $98.5 million. An earlier version of Table C, which showed cofinancing rounded to $99 million has been corrected.

**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**

**Additional Comments 04/18/2020**

IFC is not one of the 18 GEF Agencies, table D should indicate WB as Agency

**Agency Response**

**Agency Response 4/20/20:**

IFC is an Executing Agency of the World Bank, which is an Implementing Agency of GEF. The project entry in the portal has been corrected to show the World Bank as lead agency.

The STAR allocation?
Secretariat Comment at PIF/Work Program Inclusion

Agency Response
The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response
The LDCF under the principle of equitable access

Secretariat Comment at PIF/Work Program Inclusion

Agency Response
The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response
Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response
Impact Program Incentive?
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

Agency Response
Core indicators

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response
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
Additional Comments 04/02

The project still does not have an estimated number under core indicator 11. I see this being included in the PIF uploaded, but not in the portal. Further on this specific indicator. For an investment with a global impact and working with the entire shipping sector having 120 people identified as beneficiaries is too low. Please re-estimate
All comments addressed

Agency Response

Additional Comments - April 2, 2020:

IFC's previous estimate was based on the number of ships expected to benefit from the Platform's investments into low-carbon technologies. Core Indicator 11 has been revised.

Part 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

1. The problem is well explained, and the barriers are clear, some of which such as the owner/renter are common to the energy efficiency space. Fragmentation of the industry and weak governance of the global shipping industry contribute to make decarbonization of the sector particularly difficult.

Additional comments 04/02

The portal submission totally lacks any information under the section Project justification. The information is already available in the uploaded documents but NEED to be included in the portal entry too.

All comments addressed

Agency Response

Additional comments, April 2:

The World Bank Group portal template does not contain this section. The Project Justification is provided in full in the Project Proposal.

2. Is the baseline scenario or any associated baseline projects appropriately described?
Secretariat Comment at PIF/Work Program Inclusion
1. Baseline: while it is well drafted, it lacks to consider the physiologic improvements that are to be expected in the average EE of the shipping sector, by virtue of the normal (albeit slow) decommissioning of old and inefficient vessels with modern ones. It is suggested that the proposal considers the inclusion of a dynamic baseline, against which to estimate emission reductions.

Additional comments 04/02

Thank you for the clarification. We will expect to see the full GHG emission reduction analysis at the time of submission of the CEO endorsement request. For the time being, it will be enough to share with us the methodology/calculation sheets used to determine the ERs volumes at PIF stage, as per my comments above in this review sheet.

All comments addressed

Agency Response

Well noted and dynamic baselines will be considered. IFC would highlight that comprehensive environmental benefit accounting related to decarbonization of the shipping industry is still being developed by the World Bank Group’s academic partners, including the University College London.

Additional Comments, April 2:

Per the Secretariat's request, IFC will provide a spreadsheet clarifying the assumptions underlying the GHG calculations. A GHG emission reduction analysis will be provided by IFC at the time of submission for CEO endorsement.

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

Secretariat Comment at PIF/Work Program Inclusion
1. Proposed structure: the proposed architecture of the initiative is particularly interesting, as it tries to align all involved stakeholders and assign a shared level of savings/gains to all of the participants. This is akin to an energy efficiency "shared saving” contractual structure in an ESCO model, now applied to the shipping sector.
All comments addressed.

Agency Response
Well noted.

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

Secretariat Comment at PIF/Work Program Inclusion
Additional Comments 04/02
Please revise section 4. Alignment with GEF focal areas and/or Impact Program strategies in the concept note as follows referring GEF-7 programming strategy (https://www.thegef.org/documents/gef-7-programming-directions)
- Climate Change Impact Program to Climate Change Focal Area
- International Waters Program to International Waters Focal Area

All comments addressed

Agency Response
Additional Comments, April 2:
This section has been revised according to recommendations from the Secretariat.

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
Agency Response
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
1. Emission reductions: the methodology to calculate emission reductions is straightforward given it involved fuel savings. Cost of emission reductions claimed seems to be slightly higher than GEF average, but such average is highly influenced by GHG results in the LULUCF sector, which are not necessarily comparable to this sector. Estimates are therefore acceptable for the GEF.

Additional comments 04/02
As per comments above on GHG emission reduction.
All comments addressed

Agency Response Comments from the Secretariat are noted. Per request, IFC will provide a spreadsheet clarifying the assumptions underlying the GHG calculations.
7. Is there potential for innovation, sustainability and scaling up in this project?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response
Project/Program Map and Coordinates

Is there a preliminary geo-reference to the project’s/program’s intended location?
Agency Response

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

- The description of stakeholder engagement is missing. The potential role for NGOs and civil society to guide technology investments is quite important in this space. It would be appropriate to ensure representation of these environmental advocates in the Platform. Likewise engagement of ministries and other stakeholders must be enhanced.

Additional comments as of 04/02

The section only ticks off private sector as a stakeholder group, but please consider if CSOs may also be relevant stakeholders to engage with for the project. If so, please expand the description attached.

All comments addressed

Agency Response

Additional comments, April 2:

This section has been expanded in both the project proposal and included in the Portal.

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

Additional Comments 04/02

The project has only selected one of the gender indicators, please explain why. Further, please reconsider if the project can develop gender sensitive indicators, or alternatively provide a SOLID explanation for why this investment will not be able to adhere to the GEF gender strategy.

Addressed

Additional comments 04/18/2020

1. The PIF includes considerations on gender, including information on the WB’s and IFCs gender strategy and potential challenges to ensure that both women and men benefit. It is however, unclear, what the project plans are in terms additional gender analyses/assessment during project development to make sure investments provide equal opportunities for men and women in terms of employment, access to services, income generation, and entrepreneurship. Please ask WB to provide further detail on plans during project development, prior to CEO Endorsement.

Agency Response

Additional Comments, April 2:

IFC has provided a revised estimate, disaggregated by gender, of direct beneficiaries.

This project will primarily focus on asset retrofits to existing commercial ships, direct results are expected to focus primarily on the creation of a fleet of low-carbon, fuel-efficient, greener ships which will provide global environmental benefits across several decades. These benefits include, but are not limited to reduced carbon emissions, sulfur (SO2), nitrous oxide (NOX) and other harmful air particulates released by burning heavy fuel oil.

The Platform will be designed consistent with IFC’s Gender Strategy, which includes coordinating with other gender-based platforms serving the shipping sector and aligning, where appropriate, with initiatives that advance the cause of gender equality in the maritime industry. This could include, for example IMO’s Women in Maritime program, that works to support the participation of women in both shore-based and sea-going posts.

Agency Response 4/20/20:

Project plans to address gender dimensions during project implementation, along with beneficiaries disaggregated by gender, will be shared with the GEF Secretariat ahead of CEO endorsement.

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

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 04/02

Portal entry does not include any information on risks and potential risk screening that has been or will be undertaken. Please provide.

Addressed

Additional comments 04/18/2020

1. The project document includes information on Environmental and Social Risks, indicating that IFC requires that all projects are assessed and screened for environmental and social risks and that projects are required to meet and operate in a manner consistent with IFC’s Sustainability Framework, including IFC’s Performance Standards (PS) on Environmental and Social Sustainability. It does, however, not include any attachments of the particular screening of this project or information on the preliminary overall risk rating or types/rates of risks anticipated. Please ask, WB/IFC to attached the WB’s “Concept Environmental and Social Review Summary” or IFC’s screening report, if available. If not please ask, WB/IFC to provide, in line with the GEF Policy on Environmental and Social Safeguards, indicative information regarding any environmental and social risks and potential Impacts associated with the proposed project and any measures to address such risks and impacts.
Agency Response

**Additional Comments, April 2:**

Projects under the Program will be implemented in accordance with IFC’s relevant policies and procedures and screened against a number of risks, largely to ensure the Program's environmental and social integrity success and financial viability. The most relevant and significant projects risks have been categorized and described in the Risks section of the Project Proposal.

**Agency Response 4/20:**

IFC commits to sharing the ESRS with the GEF Secretariat in advance of CEO endorsement. As a GEF Agency, the World Bank Group is aligned with GEF Environmental and Social Safeguards policies; in instances where requirements for private sector projects may differ from the World Bank, IFC will seek to review and align such requirements in accordance with IFC’s Environmental & Social policies and share this review with the GEF Secretariat in advance of CEO endorsement. This language has been added to the project proposal (section V. (e)) and the termsheet.

**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**

1. Further, concept will also be able to benefit from the political attention that greening of the shipping sector have in the Friends of Ocean Action and the High Level Panel of Sustainable Ocean Economy. These relationships should be described in more detail in the concept. These two points 2 and 3, could be reflected upon under section 6 Coordination, even though they are briefly described in section 2 already).

The project does not fully explain the current role for policy on carbon emissions reductions being adopted by the marine sector, in part with TA from a GEF/UNDP project. This requires some clarification. What if shipping companies are going to be required by policy action to make these investments, then the GEF investment would not be needed. What if European tax or other policy regimes require shipping companies to make certain investments? See https://ec.europa.eu/clima/policies/transport/shipping_en for an extensive summary of current policy and data collection actions. This rapidly emerging policy environment should address the split incentive issues identified in the project, reducing some of the rationale for the platform.
Agency Response

1. This has been incorporated into the Project Proposal.

The Platform has sought to closely align with relevant policy, regulation and strategic initiatives already underway, including the initial IMO greenhouse gas strategy adopted in April 2018 that aims to reduce the total annual GHG emissions from shipping by at least 50 percent by 2050. Despite this ambitious target, the IMO has not announced short-term, mid-term or long-term strategies and measures (technological or otherwise) that will enable the shipping industry to achieve these reductions, nor has a timeline been set to enforce these potential measures. It is clear that research and innovation, as well as demonstrations and experimentation, will be required to identify the best mix of suitable technologies to retrofit the existing fleet in advance of any binding regulation. IMO recognizes the critical role the private sector has to play in accelerating low-carbon investments and has provided a letter indicating IMO’s support for the IFC/GEF Platform, stating that the objectives to catalyze private sector financing for low-carbon, green shipping are well aligned with the initial IMO GHG strategy.

An IFC/GEF partnership supporting a one-of-a-kind financing Platform for shipping would benefit from the political high-level visibility support behind greening shipping initiatives at the global level, leverage existing partnerships and knowledge, particularly from programs already funded by IMO/GEF, and continue to catalyze financing for private sector inventions based on a sustainable business case regardless of whether low-carbon policies are enacted.

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

Additional Comments 04/02

Even though this is a global issue to be tackled, please reference any global, regional or national interest/development towards in addressing this. Such information would sit well in project justification, some of the global interest in the subject has been included under “stakeholders” but should be expanded on, in other parts of the submission.

All comments addressed
IFC has expanded Section 7 on Consistency with National Priorities to reflect points of alignment between the Platform and regional and national objectives.

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

Additional comments 04/02

Please include information on this in portal entry.

All comments addressed.

Agency Response

Additional Comments, April 2:

The World Bank Group portal template does not contain this section. It has been included in the enclosed Project Proposal and for clarity has been included below.

Section 8 - Knowledge Management

The proposed Investment Platform will seek to leverage information, learning and knowledge gained from the Platform’s investments and disseminate it transparently and publicly in order to support additional scale up and/or replication:

- Involve stakeholders in the project’s preparation, in order to learn from their collective experiences
- Provide visibility to the Platform and its anchor partners and donor (GEF) as a first-of-its-kind innovation in greener shipping financing
• Provide thought leadership on technical and operational improvements for greener shipping investments
• Disseminate aggregate data on experiences with specific technology and operations, subject to client confidentiality
• Disseminate lessons learned about greener shipping investments with decision makers and in appropriate industry fora
• Leverage IFC’s role as a global convener to bring together private sector participants and other stakeholders in order to share experiences, provide lessons and support public-private partnerships
• Coordinate with relevant national, regional and international platforms to ensure knowledge transfer and transparency

Specific knowledge work and dissemination across key industry stakeholders will be carried out, which is detailed in Component 2 of the Investment Platform’s proposed work plan.

Part 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

1. The GEF has often supported de-risking of energy efficiency investments by ESCOs and other service providers. This has been through tools such as performance guarantee’s or first-loss risk mechanisms. In the case of large shipping companies purchasing fuel saving technologies with guaranteed cost
reductions, a guarantee mechanism might catalyze greater levels of investment than a $15 million sub-ordinated equity investment. Has this design been considered?

2. A full Annex B reflows table is provided, describing an IRR of 8-15%, 120 green shipping investments ranging from 0.5-$2 million. GEF’s initial term is 10 years, but extendable to 20 years. This may be too long and should be negotiated. GEF’s principal and reflows will be sub-ordinated to other investors.

   - GEF’s return target (“hurdle”) may limit GEF’s return, but is not specified and should be clarified. Most energy efficiency investments, including fuel savings, often have a 3-year payback. That is, the investment is paid for by fuel cost reductions with three years. Therefore, the estimated IRR of 8-15% seems low, and the 5-year investment window seems high.

3. **Financial Structure Comments:**

   - The Investment Committee will include secondees of anchor partners that may have conflicting points of view; who would help decision making in light of disagreement.

   - Based on Figure 5 Platform structure, additional shipowners and Other Charterers would be outside of the JV partners which will limit there say in decision making (ie they are not part of the IC or Board of Directors) do you think that would be a deterrent for scalability and replicability?

4. **Termsheet comments**

   - The investment platform strategy aims at increasing fuel efficiency by up to 40%; is there a floor?

   - If the maturity is extended to 20 years, how would the ROI be affected?

   - in principal recovery and (ii) subordinated position in interest. Given that reflows of the GEF would only start on year 5, our understanding is that you are asking a grace period of 5 years?

   - Please define the frequency of payment (annual basis/semiannual)

   - Waterfall: please explain why the waterfall seeks to repay principal first and then interest; if principal goes first, is there any amortization schedule that can give an idea of how much flow will be available at each level of the waterfall? Could you also add the operational costs to the waterfall? If targeted energy efficiency levels are not achieved, does the structure intend to have performance reserve accounts for lower levels of performance/scenarios (not only P90 but P50).

   - Please explain in the termsheet that the Net Proceeds are 85% of savings. Is there any cost that need to be netted? In other words, a definition of net proceeds would be welcome.
Please explain the financial additinality of the GEF financing given that we have the same rate of return as other investors: would a shorter grace period in exchange of a lower rate of return work for the structure?

5. Risks Section:

As discussed during our meeting, we would welcome further elaboration on the following risks:

(i) How to prevent misalignment between EPC and O&M, if EE are below expectations, how do we define responsibilities, cure periods and mechanisms to address it?

(ii) Cash flow: the JV income depends not only on the EE performance but on the willingness to pay from the charterers to the JV; that credit risk needs to be addressed in the financial/legal structure.

Additional Comments 04/02

The GEF Sec provided comments in track changes to the termsheet. But below are the themes we commented on:

1- In the PIF review sheet you mention that “If the initial returns are below the 8-15% hurdle, then the Platform may be extended or adjusted in order to demonstrate commercial success (for which the 8-15% hurdle would continue to be a benchmark).” Thanks for clarifying. On credit worthiness: This should also be assessed as part of the selection process of investments, given that creditworthiness ie capacity/willingness to pay savings to the JV is crucial. Please add language to the termsheet as well as the Risks section of the document.

2- Please clarify if the IFC will be considered an Anchor Investor (as it was not included in the termsheet) and therefore can ensure the corporate governance standards. I have included several comments in this regard in the termsheet. If only Cargill and Maersk invest are considered anchor investors in the governance, please elaborate on how the decision-making process will ensure that this is “an independent investment entity arms-length investment decisions” with future participants (ie additional shipowners and charterers). Please elaborate on “services” concept: How does the cost saving mechanism work if additional participants are not investors, hence not part of the waterfall? Overall, we need a bit more detail on how the “opening up” of the platform would work in the concept note (and in the governance of the platform).

3- On the ROI response, please see the question above ie if that is the only case (ie hurdle rates of 8-15% not achieved) in which the maturity would be extended.
4- Thank you for the clarification, on the grace period. The confusion comes from this sentence in the termsheet: “Instead GEF will provide portfolio protection by accepting returns at a later point in time than other anchor investors, as shown by the indicative waterfall in Figure A”. We -anchor investors- all receive payments at the same time BUT we are subordinated. Please amend language.

5- Additional questions on Liquidation/Exit: In the termsheet you state: “If (i) the total available capital allocation has been used and no further capital calls have been agreed; (ii) the target return as per above has been achieved by an investor and such investor opts to leave the Platform as agreed with the other investors; or (iii) the Board of Directors votes to terminate the JV. “

If that is the case, is there a possibility that an anchor investor leaves before the GEF gets its return? If that is the case, we agree to be subordinated for principal repayment but would like to be pari passu at return level with investors. We need additional clarification on capital calls as commits provided to the termsheet.

The coverage of ongoing admin costs after capitalization phase should be part of the waterfall and covered first (before principal repayments).

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8- Please add Risks language in the risks sections of the concept note on both (I) and (ii) provided in initial comments.

9- The investment decisions will be made by the investment partners, including the big companies listed above. The project document does not explain how the agency will ensure GEF technical, environmental, and policy requirements will be ensured for each investment using GEF resources. Will the agency sit on the IRC? Will the agency have a veto power if the investment does not meet GEF requirements. We also suggest, reinforcing the language on scalability and potential to bring in additional ship owners and charterers and if possible, the potential for this project to include additional beneficiaries such as technology providers and suppliers directly providing efficiency or renewable technologies.
All comments addressed

Agency Response

We considered various structures for this Facility, including performance guarantees and first loss guarantees commonly seen in ESCO structures. Guarantee structures are often optimal for known technologies but expose the donor to high risks without any benefit of higher/additional returns. Guarantees tend to work well for mature investments where there is no doubt about the performance of the technology. For example, guarantees in ESCOs support standardized energy efficiency technologies with demonstrated track records in highly controlled environments. In contrast, any green shipping investments made by the Platform must contend with much more variability, including weather, ports, stops, loaded cargo, etc. that may impact performance. Eligible technologies for greener shipping do not have the same standardization and track record as energy efficiency technologies. Therefore, at this time, a guarantee from GEF would not catalyze higher investment amounts into the Platform.

IFC proposes to use GEF funds as subordinated, quasi-equity as it provides the Platform with some, but not complete, coverage against underperformance from green shipping technologies. By providing partial risk coverage, the structure supports the thesis that low-carbon shipping technologies are on the cusp of commercial viability. The subordinated waterfall structure also widens the eligible green shipping technology choices from which the Platform can select without creating misalignment of interests with other equity providers.

This structure is also a signal to the market that the first projects supporting low carbon investments for shipping do not require a blunt concessional instrument such as a first loss guarantee. In keeping with the DFI Enhanced Blended Finance Principles, IFC believes the structure proposed provides the Green Shipping Platform with the minimum amount of concessionality required to ensure that the Platform proceeds.

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2. The initial term of the proposed Platform is 10 years with a 7-year investment window. The length of GEF’s investment will be coterminous with other investors to the Platform. IFC will be a co-investor with GEF; if there are commercially compelling reasons to extend the Platform, IFC and GEF will continue to co-invest. If IFC exits the Platform, GEF will exit as well. Any recommendations to extend the Platform, along with the commercial justification for such an extension, will be made by the Platform’s Board of Directors. In no situation will IFC or GEF’s term exceed 20 years.

- The Platform will consider a range of technologies; each will have individually calculated fuel savings and payback periods for specific shipping environments. The seven-year investment window provides the maximum flexibility to make pilot investments with a broad range of green shipping technologies, including encouraging the use of newer technologies, particularly those of auxiliary low-carbon propulsion, which are likely to require payback periods exceeding more traditional energy efficiency investments.

The target rates of return appear satisfactory for the proposed quasi-equity instrument, as evidenced by participation of private sector companies at the same hurdle rate of 8-15%. Specifically, quasi-equity investments from the anchor investors to the platform would benefit from (i) no currency risk (ii) strong credit worthiness of each of the anchor investors and (iii) capability of the Platform to select from an array of proven green shipping technologies. The difference between GEF’s return and the return of other investors to the platform would only be on account of the cash waterfall subordination, without which anchor investors would not invest in the Platform. If the Platform is successful, GEF would earn substantially the same nominal return as other anchor investors.

3.

- IFC will apply best practice corporate governance standards to ensure appropriate conflict resolution mechanisms. IFC, as co-investor and as implementing partner for GEF, will ensure that these conflict resolution mechanisms are incorporated into the charter documents of the Platform.

- The Platform’s initial decision making guidelines will be decided by anchor investors. After an initial track record of green shipping investments is achieved, the Platform would be well-positioned to scale by leveraging the operating experience and financial outcomes of the Platform.

At that stage, additional charterers and shipowners would be able to use services provided by the Platform regardless of whether they participate in the Platform as investors. The incentive to use the Platform would be the unique cost-saving mechanism, in addition to the track record created from initial investments from anchor investors. Eligibility for additional investors to contribute capital to the Platform will be developed and approved by the Anchor Investors. Any charterer would be eligible to use the Platform to recommend ships for green retrofits, subject to reputational and credit risk checks.
IFC and other non-charterer investors would make sure that the Platform would continue to operate as an independent entity making arms-length investment decisions in order to maintain technology-agnosticism irrespective of the identity of the charterer and the shipowner. The ability to benefit from the Platform without the requirement to make a quasi-investment increases its scalability and could create a public good in the green shipping space.

4.

**Fuel efficiency:** Any investment that the Platform supports must be economically justified, commercially oriented and ensure the target return to the anchor investors. Eligible technologies must demonstrate high fuel efficiency. As it is likely the Platform will be oriented towards opportunities that maximize fuel savings in the specific shipping environment, a fuel efficiency floor has not been considered necessary.

**ROI:** Returns on investment will be determined for a particular ship/set of ships or for a particular investment. Each investment made by the platform will be self-liquidating based on the fuel savings. The aggregated return for the Platform will depend on the portfolio of individual fuel savings from investments. IFC anticipates that if returns are high, indicating commercial sustainability without the need for concessionality, GEF’s investment would be returned after the initial 10-year period. If the initial returns are below the 8-15% hurdle, then the Platform may be extended or adjusted in order to demonstrate commercial success (for which the 8-15% hurdle would continue to be a benchmark).

**Grace period:** The Platform is not currently anticipated to generate reflows to investors until five years, as the first set of investments reach maturity. As the concept of the Platform develops and is tested, including technological and financial parameters, the reflows may be expected to start earlier, which is in the inherent interests of all investors.

**Frequency:** The exact frequency will be determined by the performance of the underlying investments. If any adjustments are anticipated to the expected annual payments, GEF would be notified.

**Waterfall:** The waterfall repayment schedule represents GEF’s subordination in the Platform structure. GEF’s concessionality is available to the other investors as patient capital. By allowing other investors to receive their principal repayment first, GEF is providing comfort to other investors to participate in new and as yet, untested, green shipping investments. In order to ensure GEF is compensated for this risk, commercial returns will be shared equally among the partners only after GEF has received its principal in full. To clarify, these additional payments after principal return do not represent interest; they would represent the upside of the Platform.

As the commercial returns from Platform investments will depend on individual underlying investments, each of which will have a different return profile, an amortization schedule is not possible, which is normal for a quasi-equity investment.
With regards to the **Operational Costs**, IFC would like to clarify that the operational costs come initially from the capitalization of the structure, in order to cover a vital set-up and staffing costs to ensure the Platform is operational. Once operational, a mechanism will be put in place to allocate a portion of the Platform’s reflows to reimburse ongoing administrative and operating costs of the JV. Regular capital reflows to all the investors in the Platform, including GEF and IFC, will be effected after the costs of operations are covered. This second stage of cost allocation for operational expenses is represented in the included diagram in Annex A.

With regards to the clarification on reserve accounts, as equity partners, the anchor investors will put their entire quasi-equity position at risk. Unlike a debt/guarantee investment, no reserve account is considered necessary.

**Net proceeds:** Of the 100% of cost savings estimated on a particular investment, approximately 15% will be paid directly to a shipowner as an incentive to participate and the remaining 85% (the net proceeds) of the expected savings would be paid to the Platform. After meeting operating expenses as explained above, the remainder will be available for distribution to anchor investors.

**Financial additionality:** GEF’s critical value-add is in the subordinated nature of its quasi-equity position that provides patient capital, whereby payments are made only after the anchor investors, as per the waterfall. GEF’s financial additionality in this structure is vital. The subordinated quasi-equity position provides patient capital that leverages other investors to participate who would not otherwise make their investment. Further, GEF’s ability to wait five years for repayments allows the Platform the flexibility to pilot the widest range of technologies maximizing/optimizing low-carbon opportunities within the shipping industry. Without GEF’s participation, these options would be unavailable to the Platform.

Each payback period would be determined by the investment that underpins it. If we were to create incentives for shorter periods, it is unlikely the Platform could maintain its technology agnostic investment mandate. The Platform will however strive to repay investments as quickly as possible to satisfy financial interests of all the anchor investors.

**Risks:**

(i) The supplier and EPC will be responsible for the quality of the equipment installation and its functionality during the appropriate warranty period. Expected savings are expected to be reliably monitored and paid regularly over the life of the underlying charter. If a technology underperforms, the charter can be extended to ensure the investment is repaid. Learnings from any low-performing investments would be considered in future investment decisions.

(ii) Before the Platform engages with new charterers, the Platform will develop a standard set of criteria to assess the credit worthiness of the participating charterers. The Platform’s Investment Committee will approve any new charterer engagement based on such criteria.

**Additional Comments, April 2:**
1- In the PIF review sheet you mention that “If the initial returns are below the 8-15% hurdle, then the Platform may be extended or adjusted in order to demonstrate commercial success (for which the 8-15% hurdle would continue to be a benchmark).” Thanks for clarifying.

Noted, thanks.

On credit worthiness: This should also be assessed as part of the selection process of investments, given that creditworthiness ie capacity/willingness to pay savings to the JV is crucial. Please add language to the termsheet as well as the Risks section of the document.

New sections covering the eligibility of charterers and the additional investors to the Platform has been added to the Termsheet. The Risks section has also been updated.

2- Please clarify if the IFC will be considered an Anchor Investor (as it was not included in the termsheet) and therefore can ensure the corporate governance standards. I have included several comments in this regard in the termsheet. If only Cargill and Maersk invest are considered anchor investors in the governance, please elaborate on how the decision-making process will ensure that this is “an independent investment entity arms-length investment decisions” with future participants (ie additional shipowners and charterers).

The Termsheet and proposal have been clarified to show IFC as an anchor investor.

Please elaborate on “services” concept: How does the cost saving mechanism work if additional participants are not investors, hence not part of the waterfall? Overall, we need a bit more detail on how the “opening up” of the platform would work in the concept note (and in the governance of the platform).

Detailed information on how the cost savings mechanism would work have been added in a new section to the Termsheet. IFC has clarified that investors into the Platform are not required to be users of the Platform; users of the Platform (shipowners and charterers) are not required to be investors. This distinction has been clarified in the Termsheet.

The specific Services offered by the Platform, including access to the unique package of technical advisory, upfront financing of green shipping retrofits and implementation services and support has been clarified in the Termsheet.

3- On the ROI response, please see the question above ie if that is the only case (ie hurdle rates of 8-15% not achieved) in which the maturity would be extended.

Clarification on necessary conditions to provide a potential Platform extension was discussed with the Secretariat on April 8, 2020.

4- Thank you for the clarification, on the grace period. The confusion comes from this sentence in the termsheet: “Instead GEF will provide portfolio protection by accepting returns at a later point in time than other anchor investors, as shown by the indicative waterfall in Figure A”. We –anchor investors- all receive payments at the same time BUT we are subordinated. Please amend language.
This language has been amended.

5- Additional questions on Liquidation/Exit: In the termsheet you state: “If (i) the total available capital allocation has been used and no further capital calls have been agreed; (ii) the target return as per above has been achieved by an investor and such investor opts to leave the Platform as agreed with the other investors; or (iii) the Board of Directors votes to terminate the JV.“

If that is the case, is there a possibility that an anchor investor leaves before the GEF gets its return? If that is the case, we agree to be subordinated for principal repayment but would like to be pari passu at return level with investors. We need additional clarification on capital calls as commets provided to the termsheet.

GEF will be pari passu for subsequent investors joining the Platform. This has been reflected in the Termsheet, along with clarification on the expected capital calls from investors to the Platform.

The coverage of ongoing admin costs after capitalization phase should be part of the waterfall and covered first (before principal repayments).

ICF agrees. The waterfall has been updated to include the operational and administrative costs.

6- The 85/15% split was not in the termsheet: please add it, as it affects the section Use of proceeds: we need to state that is 85% of the savings somewhere that is paid [by who] to the structure.

A new section has been incorporated to outline the use of proceeds, including the payment of fuel savings to the Platform and the participating Shipowner.

7- Additional question on this sentence (I understand it is commingling you are referring to), if not, please explain: “Each investment made by the platform will be self-liquidating based on the fuel savings. The aggregated return for the Platform will depend on the portfolio of individual fuel savings from investments.” Here my question on self-liquidating. How would it work if one investment fails to provide savings? Would other investment savings cover this shortfall? Or how would you account for a lack of cash flow that can result in default? This is very important to understand.

A section has been added to the Termsheet to address these questions. To clarify, there is no co-mingling of investments. Each will be a stand-alone transaction; defaults will be addressed at the transaction level.

8- Please add Risks language in the risks sections of the concept note on both (I) and (ii) provided in initial comments.

As discussed during our meeting, we would welcome further elaboration on the following risks:
(i) How to prevent misalignment between EPC and O&M, if EE are below expectations, how do we define responsibilities, cure periods and mechanisms to address it?

(ii) Cash flow: the JV income depends not only on the EE performance but on the willingness to pay from the charterers to the JV; that credit risk needs to be addressed in the financial/legal structure.

This Risks section has been updated to reflect questions raised in point (i) and (ii) above.

9 - The investment decisions will be made by the investment partners, including the big companies listed above. The project document does not explain how the agency will ensure GEF technical, environmental, and policy requirements will be ensured for each investment using GEF resources. Will the agency sit on the IRC? Will the agency have a veto power if the investment does not meet GEF requirements. We also suggest, reinforcing the language on scalability and potential to bring in additional ship owners and charterers and if possible, the potential for this project to include additional beneficiaries such as technology providers and suppliers directly providing efficiency or renewable technologies.

Investments will be made by independent experts recommending package of technology-agnostic investments to the Platform’s Investment Committee (IC). The Anchor partners will be arms-length investors. IFC’s financing is contingent upon investments meeting various E&S, governance, etc. which will be aligned to IFC Performance Standards. These eligibility criteria will be incorporated into the Platform’s incorporation and charter documents.

GEFSEC 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
Yes, this project has addressed all GEF Sec comments and is recommended for technical clearance.

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

Secretariat Comment at PIF/Work Program Inclusion

Review Dates

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PIF Recommendation to CEO

Brief reasoning for recommendations to CEO for PIF Approval

This project will establish as financing platform aiming to accelerate the retrofit of fleets to increase fuel efficiency and has the potential to transform one of the most carbon intensive industries towards a sustainable, low-carbon future. The project will address three barriers hindering investments into low-carbon, fuel efficient technologies specific to shipping industry: first it will solve the split incentive barriers between ship owners and charterers to pursue energy efficiency measures;
second, it will provide a de-risking structure that enables initial anchor investors to test the financing model and third, it will unlock and scale up available private sector financing for greener shipping. In recognition of the vital role that private sector financing must play to decarbonize the shipping sector, IMO has expressed support for this project. The project is expected to generate 1.78 million tCO2 directly avoided by the project and 20.38 million tCO2 in total (indirect avoidance of 18.6 million tCO2).