Webinar Background Note:

Mobilizing Climate Finance:
Investing in Solutions and Innovations for Sustainable Tourism
With practical examples from the Philippines

Climate investment and financing in tourism has become more than ever important in the Covid-19 recovery context, where building back better and greener is essential to ensure a sustainable, competitive, and inclusive tourism sector. There is an urgent need as well as an opportunity for the public sector and private tourism businesses to shift to investments and financing that accelerate the transformation and resilience of the sector considering environmental, health, and geopolitical threats.

The Role of the Tourism Sector and Financing Challenges to reach Net Zero Emissions

The tourism sector is an essential driver for economies, local livelihood and showcasing natural and cultural heritage accounting for every 1 in 10 jobs worldwide, 10% of global GDP, and higher percentages in many countries, such as in the Philippines with 12.7% of GDP[1] pre-pandemic levels in 2019.

At the same time, the sector is dependent on a healthy environment and highly vulnerable to environmental threats, such as floods, sea-level rise, forest fires, biodiversity loss, food insecurity, pollution, and related increased insurance costs and safety concerns. Science has shown that the next years will be critical for the future to limit global warming to 1,5 degrees to avoid dangerous climate impacts. Under a 'business-as-usual' scenario, UNEP predicts that tourism could see a 131% increase in greenhouse gas emissions by 2050[2]. Tourists are also increasingly expecting sustainability as a pre-requisite for choosing a tourism offer and traditional and online travel agencies have started to showcase environmental performance as a selection option. Sustainable consumption and production of the sector offer thereby vast opportunities to protect the environment while also fostering social inclusion and sustainable economic development through decent jobs.

Today, however, tourism businesses often face challenges in identifying investment needs and climate finance options for mitigation solutions, including:

- missing awareness of available resources for sustainable finance,
- identifying and calculating the amount of supporting climate mitigation finance needed,
- structuring the business proposal in terms of its financial and non-financial benefits and impacts adapted to the most appropriate financing instrument.

The following supporting document for the webinar *"Mobilizing Climate Finance: Investing in Solutions and Innovations for Sustainable Tourism"* based on the UNEP publication "Making the Business Case for Climate Smart Investments: Guidelines for the Tourism Sector aims to help to 1) highlight main types of financial instruments, 2) describe how to calculate climate mitigation finance needs, 3) explain when climate mitigation finance is needed, 4) provide key elements of a business proposal for investors, as well as 5) showcase some case studies and 6) resource examples.

[1] https://www.philstar.com/business/2020/06/22/2022500/tourism-contributes-127-gdp-2019

[2] https://www.unep.org/explore-topics/resource-efficiency/what-we-do/responsible-industry/tourism

1. What Type of Financial Instruments for Climate Mitigation Investments?

A variety of financial instruments exist to address additional cost and/or varying degree of risk associated with climate mitigation investments. Risk, whether real or perceived, is probably the most important factor to meet investors' risk-return needs for mitigation solutions in tourism companies and projects, such as for air-conditioning, water heating, cooking, lighting, appliances, green transport, laundry, waste treatment or power generation. Public finance is thus important in the transition phase to cover additional financial costs for projects that would otherwise not be viable and to reduce risks.

In general, a mix of public and private finance, between bilateral and international development cooperation, and commercial banks and funds is essential to scale-up investments needed to reach net zero emissions by mid-century in the tourism sector. Private-sector financing will have to play an increasing role, especially post-Covid when public finances are strained. Private financing will happen when there is a reasonable, predictable, and relatively good rate of return on investment. Public-sector financing, on the other hand, is driven more by the impacts of the projects, especially climate and non-financial impacts. Therefore, to attract public (co-)financing, quantification of impacts is important.

Financing from development banks, funds and national sustainable finance framework are important in (co-)financing climate actions in the tourism sector that would otherwise not be financially viable and implementable. Although increasingly access for the private sector is facilitated, e.g. in the Green Climate Fund, finance is usually not aimed at individual businesses or project developers. Thus, businesses and project developers should collaborate with government entities on larger sectoral approaches to be presented to the funds for financing. Increasingly developing and developed countries have also created funds to finance climate mitigation and adaptation projects that are accessible to diverse stakeholders, including companies, such as the German International Climate Initiative. Governments are also developing sustainable finance taxonomies with the aim to make 'green' activities more visible and attractive for investors to facilitate channeling funding into climate mitigation investments and other environmental and societal areas. In the Philippines for example the government has recently released its Sustainable Finance Roadmap and Framework. The latter aims to support the country's sustainability commitments and intends to raise Green, Social or Sustainability Bonds, Loans, and other debt instruments in the international capital markets.

2. How to Calculate Climate Mitigation Financing Needs?

The need for tourism companies and project developers to access climate finance depends on the:

- **Upfront cost for the mitigation option.**
- **Amount of climate financing required if the option does not pay back itself.**
- **Fit with the business model of the tourism company or project.**

One option to calculate financing needs for climate mitigation is the excel-based calculator "Greenhouse Gas Abatement Cost Model (GACMO)" which helps businesses calculate whether climate finance is needed and to which extent. This calculator helps determine the financial additionality for projects and makes a stronger case for seeking climate financing (including concessional financing). However, when doing this analysis, the businesses should clearly quantify the projects' mitigation benefits and lay down the non-financial benefits of the projects in terms of contribution to jobs, local environment, and ecosystems.

3. When is Climate Finance Needed?

Based on the GACMO tool, climate mitigation investments in hotels, and the tourism sector mostly show negative mitigation cost (especially projects related to energy efficiency improvement). Therefore, the need for such financial instrument as grants and concessional climate financing for these projects is minor.

There are, however, projects (e.g. those related to the electrification of transportation fleets) that could have positive mitigation costs. These will require climate finance (including grant financing, concessional loans, or risk cover). Therefore, the national governments of developing and emerging countries have an important role in creating the enabling conditions to attract public and private investments. This will also require capacity- and institution-building steps to reduce uncertainty, regulatory barriers, and transaction costs for investors.

One example of a GACMO calculation for the tourism sector in the Dominican Republic can be found here (annex 1).

4. What are Key Elements for a Business Proposal for Investors?

When preparing a proposal, project developers must strive to structure the financing based on the most appropriate financing instruments and analyse the business proposal in terms of its financial and non-financial impacts and the key financial barriers the intervention/technology is facing. Finance instruments can include debt or equity financing, green bonds, leasing, crowdfunding, subsidies, or sub-ordinated loans. In particular, non-financial impacts are important to receive (co-)funding from "green" sources, such as green bonds and concessional climate loans or grants, including from multilateral, regional, and national climate funds.

While trying to obtain climate financing for projects, the focus of businesses should remain on the following:

- Financial viability of the projects and the risks.
- Mitigation contribution of the project.
- Non-financial impacts of the project.
- Local capacities and ability to build on them.

A strong financial proposal is thereby essential for a business to obtain funding. As provided in the UNFCCC Finance Guidance, following eight steps tourism businesses should follow to write a proposal requesting financing for climate mitigation solutions:

1. **Describing the core concept** (service, technology, client, and project design),
2. **Describing the setting** (macro-economic and regulatory environment),
3. **Mapping the team,**
4. **Developing the implementation plan,**
5. **Describing the benefits and impacts** (GHG impacts, other non-financial co-benefits),
6. **Building the base case** (cost, revenues, return on investment),
7. **Developing a scenario analysis** (potential changes in circumstances and assumptions affecting the business case),
8. **Targeting the proposal** (e.g. to multilateral funds, development banks, funds).

5. Public-Private Cooperation Financing Examples

Land Bank of the Philippines

The Land Bank of the Philippines is a government financial institution that strikes a balance in fulfilling its social mandate of promoting countryside development while remaining financially viable.

Supporting the policy of the Philippine government to reduce electricity consumption by promoting the use of energy-efficient solutions, the Land Bank of the Philippines has developed a financing program through a loan system called **Go Green Inclusive Financing Program for SMEs and LGUs.** The objectives of this financial program are to provide accessible financing packages for energy-efficient solutions for LGUs, businesses, and other government offices and to assist in financing programs that are responsive to market demand. Among the target priority sectors are cold storage, manufacturing, hotels, restaurants, commercial/industrial buildings, supermarkets, livestock farms, schools, shopping centers, and other buildings/offices/facilities. The entities that are eligible to apply for the loan need to have viable and sustainable energy-efficient projects that save energy, use renewable sources or contribute to the reduction of GHG.

For more information about Go Green Inclusive Financing Program for SMEs and LGUs, interested applicants can view their website for the list of requirements and financing schemes offered by the Land Bank of the Philippines.

GIZ Green Cooling Initiative

The Green Cooling Initiative is a global project funded by the International Climate Initiative (IKI) of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), aiming to support developing countries in their effort to transition towards climate-friendly and energy efficient cooling technologies. As part of the activities of the Green Cooling Initiative, an ideas competition was carried out, where the Jetwing Hotel Group in Sri Lanka was selected as one of the three technology partnership projects.

The technology partnership between the Deutsche Gesellschaft für International Zusammenarbeit (GIZ) GmbH, as the implementing agency of the Green Cooling Initiative, and the Jetwing Hotel Group, focused on the installation of an absorption chiller which uses steam generated in a biomass-fired boiler to reduce the carbon footprint of the Jetwing Blue Hotel. Moreover, this cooperation led to the development of a Roadmap for the Jetwing Hotel Group, with regards to its endeavours to continuously reduce its carbon footprint and become a trendsetter in Sri Lanka for sustainable and climate-friendly refrigeration and air conditioning solutions.

In the same framework, GIZ GmbH is also one of the two implementing partners to **develop Public Private Partnership ("develoPPP")**, which is a funding programme of the German Federal Ministry for Economic Cooperation and Development (BMZ). It is aimed at companies that want to invest sustainably in a developing or emerging country and expand their local operations. The programme provides technical and financial support of up to 2 million euros for suitable projects. Prerequisites for funding are a long-term business interest in the country and a sustainable developmental benefit for the local people. The financing and implementation of a develoPPP project is carried out jointly with one of the two public implementing partners: DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH or (GIZ) GmbH. The share of public funding in the total expenditure is up to 50 percent.

For further information and to apply for funding, please visit their main website.

6. Resource Examples

Philippines Inter-Agency Technical Working Group for Sustainable Finance (ITSF), EY, UK ASEAN Low Carbon Energy Programme (LCEP), et al (2021). The Philippine Sustainable Finance Roadmap

Republic of Philippines (2021) Sustainable Finance Framework.

UNEP (2021). Making the Business Case for Climate Smart Investments: Guidelines for the Tourism Sector.

UNEP CCC. The Greenhouse Gas Abatement Cost Model (GACMO).

UN General Assembly (2021) High-Level Thematic Debate on Tourism

World Travel & Tourism Council, UNEP et al (2021). A Net Zero Roadmap for Travel & Tourism. Proposing a new target Framework for the Travel & Tourism Sector.