Financing Net Positive Hospitality

Introduction

To implement the transition to net positive hospitality, building owners will need to finance asset improvements or design new hotels in a way that's aligned with the latest sustainability guidelines. As shown in the Business Case for Sustainable Hotels, the cost of improvements can be much lower than expected. This resource provides some guidance on the type of tools and financing mechanisms that can help access finance for sustainability-related improvements and projects.

Deciding what to implement

Tools such as IFC's EDGE green building program help undertake a self-assessment of their asset(s) through a financial calculator that compares capital expenditures needed for green improvements with utility bill savings, and provides a return on investment calculation. EDGE has an extensive library of case studies, helping owners understand what technical interventions their peers implemented. EDGE can also help owners and operators through a Marketing Toolkit which boosts their local brand through World Bank Group's marketing channels.

Leasing or buying

As well as raising funds to invest in sustainability related technology, it's possible to lease equipment instead and can mean you're not having to fund a large initial capital expenditure.

Depending on the conditions of lease:

- There may be options to upgrade the equipment during the lease period so that you get more efficient equipment.
- The maintenance of the equipment can be the responsibility of the lessee or lessor.
- You may own the asset at the end of the lease term or have to give it back to the lessor.
- The total paid through the regular payments is often the value of the equipment plus interest so it's worth comparing this to the total cost of getting a loan to purchase it outright.

Grants

Some organisations, including many governments, provide grants to businesses to help fund sustainability projects, particularly those focused on decarbonisation or energy efficiency due to their commitments to achieve net zero emissions by 2050. These often fund a portion of the project, with the rest needing to be provided by the benefitting company, but don't have to be paid back in the same way that loans do.

Climate-related finance

There is a growing body of evidence that building owners can access lowered cost of financing for quality climate-related projects. Both international investors and local financial institutions have committed to green action after the Paris Agreement, pledging to deploy trillions of dollars to greening the international economy. Unfortunately, there are not enough projects that meet the criteria, leading to a competition between investors and ability to enjoy interest rate premiums.

There are several types of climate finance that appeal to different types of investors. They have specific guidelines for technical criteria, though typically an international certification serves to satisfy the technical criteria.

- **Green Finance Guidelines** have been in existence for many years thanks to the efforts by the International Capital Markets Association. ICMA provides both a general guide to Green Bond Principles (with similar criteria for both bonds and loans) and sector-specific Guidelines for Green Building Projects.
- **Blue Finance** is an emerging category of climate finance regarding water stewardship, ranging from water efficiency and sewage improvements, sustainable water travel, to marine plastics intervention. IFC's Blue Finance Guide identifies project categories eligible for this new asset category of interest to investors.
- **Biodiversity Finance** deploys investments toward projects, activities, and components that help protect, maintain, or enhance biodiversity and ecosystem services, as well as promote the sustainable management of natural resources. IFC's Biodiversity Finance Guide provides a taxonomy of activities, which can be used to identify opportunities for action and finance.

Projects based in Europe or looking to European investors would need to comply with the EU Taxonomy for Sustainable Activities.

Sustainability and green linked bonds

Sustainability and green linked bonds are methods by which a company can encourage sustainability-focused investors to investment in them by committing to achieve certain ESG or environmental metrics within a certain time period. Investors commit to invest in the bond with the interest rate they get paid tied to the issuing company's performance related to the selected metrics.

If the issuing company meets their targets then they repay the loan to the investors with one rate of interest but agree that they will pay a higher rate of interest as a penalty if they don't meet the targets. This acts as a way for investors to encourage improvements in sustainability performance within the companies they invest in.

Funds raised through sustainability-linked bonds can be used by the issuer for any purpose. However, green bonds require all or most of the funds to be used to increase the environmental sustainability of the company through investment in things like renewable energy generation or energy-efficient equipment.

Sustainability-linked bond examples

- Accor created a bond for EUR700 million in 2021 which matures in 2028 and is tied to Accor achieving greenhouse gas emissions reductions of 25.2% for Scope 1 and 2 and 15.0% for Scope 3 between 2019 and 2025.
- The Hong Kong and Shanghai Hotels raised USD$160 million in 2021. The loans are directly linked to HSH's Environmental, Social and Governance (ESG) targets including demonstrating continuous improvements in waste diversion rate, carbon intensity and energy intensity, as well as achieving certain EarthCheck certification levels for key hotels within HSH's Peninsula hotel portfolio around the world.
- Host Hotels and Resorts has a bond for $2.5 billion which is subject to an annual pricing adjustment based upon the company's successful or failed compliance with specific Sustainability Performance Targets (SPTs) tied to two Key Performance Indicators (KPIs). Specific sustainability targets include increasing the number of hotels in the portfolio with green building certifications to 38% by 2027, and increasing the percentage of electricity used at all consolidated properties that is generated by renewable resources to 38% by 2027.

Green-linked bond examples

- Whitbread raised a total to £550 million through two green bonds which mature in 2027 and 2031. Use of proceeds so far has led to 64,810 tCO2 avoided, 7 sites being constructed to high environmental standards, 100% of all consumables and fish procured using proceeds being sourced to sustainable standards.
- Park Hotel raised $237 million to refinance the refurbishment of Grand Park City Hall, a hotel it owns and manages.

The International Finance Corporation's programmes

The International Finance Corporation (IFC), a member of the World Bank Group, has several programs that assist hotels in emerging markets with their net positive transition.

- For new construction, IFC provides long-term direct finance and has invested $3.2 billion in over 335 projects in 95 countries. IFC also has green building programs through many local financial institutions, which are able to provide construction loans in the local markets.
- For building retrofits, IFC has launched programs for both direct investments, for owners of sizeable portfolios, and through local financial intermediaries, where the market is more disaggregated.
    - The GRIP Program offers a "one-stop-shop" comprehensive solution of technical advice, strategic planning, and financial package for owners of portfolios of assets. IFC helps clients create a comprehensive decarbonization strategy with clear interim targets/KPIs for existing portfolio, reporting plan, and a financing plan to implement the transition through instruments such as green bonds, green loans, sustainability-linked loans, or any relevant financial products.
    - The Hotel Green Revitalization Program achieves similar goals but works through financial intermediaries to reach smaller clients. IFC is able to offer a shorter-term working capital refinancing facility, as well as a longer-term retrofitting facility, supported by technical advice.
- In addition to greening programs, IFC's advisory arm is also able to assist owners with considerations for gender, job creation and employment, and similar social programs. IFC also offers food safety advisory. IFC's TechEmerge program is offering innovative sustainable cooling solutions for hotels, with the first case with IHCL in India.