

Funding Proposal

FP180: Global Fund for Coral Reefs Investment Window

Multiple Countries | Pegasus Capital Advisors | Decision B.30/03

23 November 2021



**GREEN
CLIMATE
FUND**

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Note to Accredited Entities on the use of the funding proposal template

- Accredited Entities should provide summary information in the proposal with cross-reference to annexes such as feasibility studies, gender action plan, term sheet, etc.
- Accredited Entities should ensure that annexes provided are consistent with the details provided in the funding proposal. Updates to the funding proposal and/or annexes must be reflected in all relevant documents.
- The total number of pages for the funding proposal (excluding annexes) **should not exceed 60**. Proposals exceeding the prescribed length will not be assessed within the usual service standard time.
- The recommended font is Arial, size 11.
- Under the [GCF Information Disclosure Policy](#), project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Accredited Entities are asked to fill out information on disclosure in section G.4.

Please submit the completed proposal to:

fundingproposal@gcfund.org

Please use the following name convention for the file name:

“FP-[Accredited Entity Short Name]-[Country/Region]-[YYYY/MM/DD]”

¹ The distribution of funding across outcomes cannot be determined in advance since sub-projects will be identified at a later date.

² Based on NoLs received. Potential indirect beneficiaries based on full initial country scope of 32 countries was 46,892,587

³ Will be increased to \$50mm if the GFCR Fund procures at least \$10mm of additional co-investment at the first closing.

A.15. Has this FP been submitted as a CN before?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	A.16. Has Readiness or PPF support been used to prepare this FP?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
A.17. Is this FP included in the entity work programme?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	A.18. Is this FP included in the country programme?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
A.19. Complementarity and coherence	<i>Does the project/programme complement other climate finance funding (e.g. GEF, AF, CIF, etc.)? If yes, please elaborate in section B.1.</i> Yes <input type="checkbox"/> No <input type="checkbox"/>		
A.20. Executing Entity information	Executing Entities: ⁴ 1. Pegasus Capital Advisors, L.P. (“ Pegasus ”), a Delaware limited partnership and Accredited Entity by the GCF. 2. The “ GFCR Fund ” – a pooled investment vehicle to be formed by the Accredited Entity, which is expected to be a SCSp under Luxembourg law 3. The “ General Partner ” – an entity to be formed by the Accredited Entity, which is expected to be a S.a r.l. under Luxembourg law. The General Partner will be managed by employees of the Accredited Entity or its controlled affiliates, except to the extent one or more managers of the General Partner are required by law to be resident in Luxembourg. 4. The “ Manager ” – an entity to be formed by the Accredited Entity, which is expected to be a Delaware limited liability company. The Manager will be controlled by employees of the Accredited Entity or its controlled affiliates, except to the extent the Manager is required by law to have one or more employees, managers or directors in its jurisdiction of formation. The Manager will be owned, directly or indirectly, by the Accredited Entity 5. “ GCF Reef Holdings ” – an entity to be formed by the Accredited Entity, which is expected to be a Delaware limited partnership. GCF will be the sole limited partner and sole economic owner of GCF Reef Holdings. Holdings GP will be the general partner of GCF Reef Holdings. 6. “ Holdings GP ” – an entity to be formed by the Accredited Entity, which is expected to be a Delaware limited liability company. Holdings GP will be controlled by employees of the Accredited Entity or its controlled affiliates. Holdings GP will be owned, directly or indirectly, by the Accredited Entity		
A.21. Executive summary (max. 750 words, approximately 1.5 pages)			

⁴ **NTD:** Names of newly formed legal entities to be determined in consultation with the Secretariat prior to finalizing the FAA.

Provide an executive summary of the project/programme including:

1. *Climate change problem*
2. *Proposed interventions*
3. *Climate impacts/benefits*

Coral reef ecosystems are critical in providing safety, food security and livelihoods to more than 1 billion people worldwide through the ecosystem services, coastal protection and economic activities they generate.

Coral reefs contribute significantly to local economies, especially in LDCs and SIDS, with many of those directly impacted being women. Coral reefs attracted an estimated 70 million visitors annually with an associated expenditure of US \$36 billion (prior to COVID-19)⁵. This will be a key area of post-Covid recovery for many countries. Six million reef fishers⁶ (many of whom are small-scale, traditional subsistence fishers) depend on coastal-reef fisheries, with an estimated value of US \$6.8 billion in 2011⁷. Women represent about 50% of the workforce in the seafood sector and 80 – 90% in the post-harvest sector⁸. It is estimated that reefs protect 150,000 km of shoreline in more than 100 countries and territories, reducing wave energy and heights, erosion and storm damage; thus, protecting over 1 billion people (and their property) who live within 100 km of reefs around the world. This results in an estimated reduction of annual expected damages from storms of over \$4 billion globally⁹. As sea levels continue to rise, this protection becomes vital. Current funding levels, however, are estimated to be 3-7 times lower than what is needed.¹⁰

At the same time, coral reefs are among the world's most threatened ecosystems by climate change impacts. In parallel, multiple local pressures continue to influence the health and longer-term resilience of coral reefs, including destructive fishing techniques, overfishing and pollution.

Recent modelling exercises on coral reefs show that protecting areas of the ocean where conditions are most stable is a key tool for adaptation to climate change. These areas, or "climate refugia", retain a suitable habitat despite regional climate change and are likely to be critical in preventing further reef degradation and considerable loss of biodiversity. Their protection is becoming a commonly prioritized conservation target and they have been recommended by numerous authors as a key component of any climate change and biodiversity adaptation program¹¹. Studies also show that better management of local stressors can significantly reduce the impacts of climate change on coral systems, increasing the resilience of reefs and therefore of the communities that depend on them for food, protection, and livelihoods. By protecting the identified priority networks of climate refugia coral reefs and reducing local stressors, some ecosystems will survive the impacts of climate change and may help repopulate neighbouring reefs.

To enhance the resilience and adaptive capacity of the communities, productive systems and businesses that depend on coral reef ecosystems, the GFCR Investment Window (the "GFCR" or the "GFCR Fund") will unlock and de-risk private investment that enable activities that ameliorate or eliminate existing local stressors in the most resilient reefs and "climate refugia". Restoration efforts will also be supported to accelerate the recovery of reefs that have the highest chance of survival.

To drive better management of local stressors and accelerate restoration, investments will focus across the following sectors:

1. Sustainable ocean production to address overfishing, destructive fishing techniques and enhance food security :
 - a. Sustainable fisheries (e.g. by-catch reduction, ghost net reduction, monitoring control & surveillance, post-catch processing, supply chain traceability)
 - b. Sustainable mariculture (e.g. seaweed farming, finfish or shrimp mariculture)
 - c. Sustainable aquaculture (e.g. shrimp, alternative feed, etc.)
 - d. Coral farming (e.g. artificial reefs ventures, assisted evolution tech companies, coral gardening and sexual propagation ventures)
2. Ecotourism to address unsustainable tourism:
 - a. Sustainably-managed hotel resorts (which can include implementation of coral restoration practices and technologies in the surrounding reefs)
 - b. Tourist activities (surf, diving, snorkelling, cruises)
3. Sustainable infrastructure and waste management to address pollution:
 - a. Plastic waste management (e.g. alternative material, waste collection and sorting, plastic recycling, AI and digital sorting)
 - b. Sewage and waste-water treatment
 - c. Green transportation (including e.g. port reception facilities to address liquid waste emitted by ships)
 - d. Clean energy affecting reefs

- e. Offshore clean energy
- f. Sustainable agriculture to reduce nutrient run-off (e.g., alternative fertiliser use, organic farming, precision farming, nutrient recycling/capture).

The GFCR Fund expects to deploy its capital primarily in control equity positions in its investee companies, although it may invest in minority positions and/or debt or hybrid securities on a case-by-case basis. The GFCR Fund is targeting a \$500 million total fund size, with \$125 million being committed by the GCF in a first-loss position as an anchor investor.

Ultimately, the GFCR Fund expects to generate the following impacts¹²:

1. 29,000 ha of reef protected, equivalent to \$10bn per year of ecosystem services¹³
2. Over 12,737 direct employment opportunities in sustainable businesses for communities dependent on coral reef ecosystems
3. 2,990,048 fisherman households benefiting from investments aimed at the adoption of diversified, climate resilient livelihood options (including fisheries, agriculture, tourism, etc)¹⁴
4. 35,236,406 indirect beneficiaries, based on the population that is dependent on reefs for protection from climatic events and for economic outputs (e.g., fishing, tourism)¹⁵.

⁵ Spalding, M, Burke, L, Wood, S, Ashpole, J, Hutchison, J & Zu Ermgassen, P 2017, 'Mapping the global value and distribution of coral reef tourism', *Marine Policy*, vol. 82, pp. 104-113. <https://doi.org/10.1016/j.marpol.2017.05.014>

⁶ Teh LSL, Teh LCL, Sumaila UR (2013) A Global Estimate of the Number of Coral Reef Fishers. *PLoS ONE* 8(6): e65397. <https://doi.org/10.1371/journal.pone.0065397>

⁷ Burke, L., Reynter, K., Spalding, M., Perry, A. (2011) Reefs at Risk Revisited. WRI publication. Available at: <https://www.wri.org/publication/reefs-risk-revisited>.

⁸ Northrop, E., et al. 2020. "A Sustainable and Equitable Blue Recovery to the COVID-19 Crisis." Report. Washington, DC: World Resources Institute. Available online at <http://www.oceanpanel.org/bluerecovery>

⁹ Beck, M.W., Losada, I.J., Menéndez, P. *et al.* The global flood protection savings provided by coral reefs. *Nat Commun* 9, 2186 (2018). <https://doi.org/10.1038/s41467-018-04568-z>

¹⁰ Global Assessment Report on Biodiversity and Ecosystem Services

¹¹ Keppel G, Van Niel KP, Wardell-Johnson GW et al. (2012) Refugia: identifying and understanding safe havens for biodiversity under climate change. *Global Ecology and Biogeography*, 21, 393–404

Tzedakis, P.C., Lawson, I.T., Frogley, M.R., Hewitt, G.M., and Preece, R.C., 2002, Buffered tree population changes in a Quaternary refugium: Evolutionary implications: *Science*, v. 297, p. 2044–2047.;

C. D. Jones, P. Ciais, S. J. Davis, P. Friedlingstein, T. Gasser, G. P. Peters, J. Rogelj, D. P. Van Vuuren, J. G. Canadell, A. Cowie, R. B. Jackson, M. Jonas, E. Kriegler, E. Littleton, J. A. Lowe, J. Milne, G. Shrestha, P. Smith, A. Torvanger, A. Wiltshire (2016). Simulating the Earth system response to negative emissions. *Environmental Research Letters*, 11(9), doi: <http://dx.doi.org/10.1088/1748-9326/11/9/095012>

¹² Assuming the full \$500 million is raised and deployed.

¹³ Assumes Total Economic Value of ecosystem services at \$352.24k/ha/year - see [Global estimates of the value of ecosystems and their services in monetary units](#)

¹⁴ Based on NOLs received. The number of potential fisher household benefitting from the programme based on full initial country scope of 32 countries was 3,906,147.

¹⁵

See Annexes 17 and 23. Potential indirect beneficiaries based on full initial country scope of 32 countries was 46,892,587

B. PROJECT/PROGRAMME INFORMATION

B.1. Climate context (max. 1000 words, approximately 2 pages)

Climate change problem: Describe the climate change problem the proposal is expected to address. Describe the mitigation needs (GHG emissions profile) and/or adaptation needs (climate hazards and associated risks based on impacts, exposure, and vulnerabilities) that the proposed interventions are expected to address. Also describe the most likely scenario (prevailing conditions or other alternative) that would remain or continue in the absence of the proposed interventions. Include baseline information. The methodologies used to derive such information, including the mitigation and adaptation needs, should be included in the feasibility study.

Context: In describing the mitigation and/or adaptation needs, briefly describe the target region/area of the proposed interventions including information on the demographics, economy, topography, etc.

Related projects/interventions: Also describe any recent or ongoing projects/interventions that are related to the proposal from other domestic or international sources of funding, such as the Global Environment Facility, Adaptation Fund, Climate Investment Funds, etc., and how they will be complemented by this project/programme (e.g. scaling up, replication, etc.). Please identify current gaps and barriers regarding recent or ongoing projects and elaborate further how this project/programme complements or addresses these.

IMPACT OF CLIMATE CHANGE ON CORAL REEFS

Climate change is warming the oceans. The consequences of climate change are already significant and will intensify into the future with global temperature expected to increase by 1.5 – 4.8°C by 2100 and precipitation patterns predicted to undergo spatial and temporal alterations¹⁶. For the global marine environment, the average sea surface temperatures (SST) of the Indian, Atlantic, and Pacific Oceans have already increased by 0.65°C, 0.41°C, and 0.31°C respectively during 1950–2009¹⁷ (Figure 1). Average global sea levels are increasing by an average of 3.2 mm per year (over the period of 1993 to 2010). This is driven by the expansion of the warming ocean and the melting of land ice¹⁸. Under current climate trajectories (RCP 8.5) the increase in sea surface temperature (SST) across six major coral reef ocean provinces is expected to rise between 0.67°C to 0.83°C by 2040 and 2.66°C and 3.14°C by 2100. Even under moderate emissions scenarios (RCP 4.5) the SST in the major coral regions is expected to rise between 1.18 and 1.44°C by the end of the century.

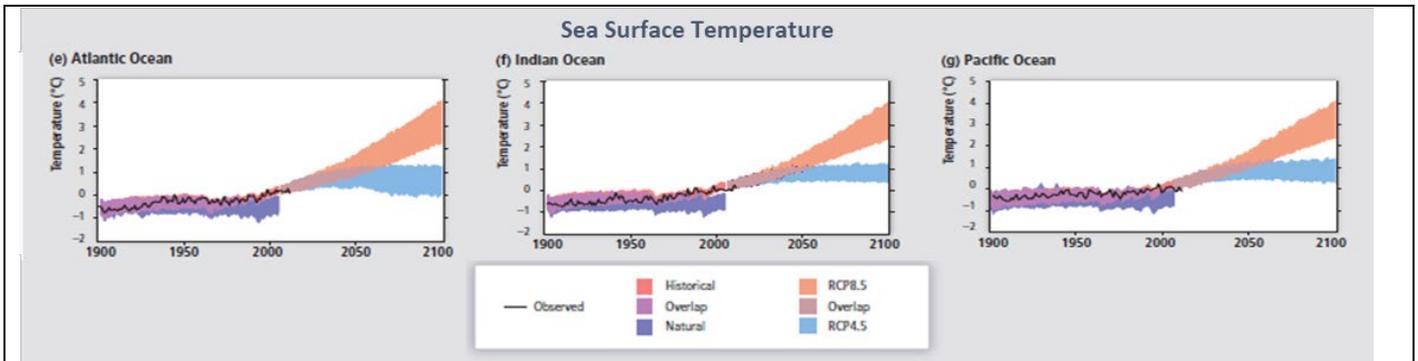
Figure 1: Sea Surface Temperature Projections¹⁹

¹⁶ IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp.

¹⁷ Hoegh-Guldberg, O., R. Cai, E.S. Poloczanska, P.G. Brewer, S. Sundby, K. Hilmi, V.J. Fabry, and S. Jung, 2014: The Ocean. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Barros, V.R., C.B. Field, D.J. Dokken, M.D. Mastrandrea, K.J. Mach, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 1655-1731.

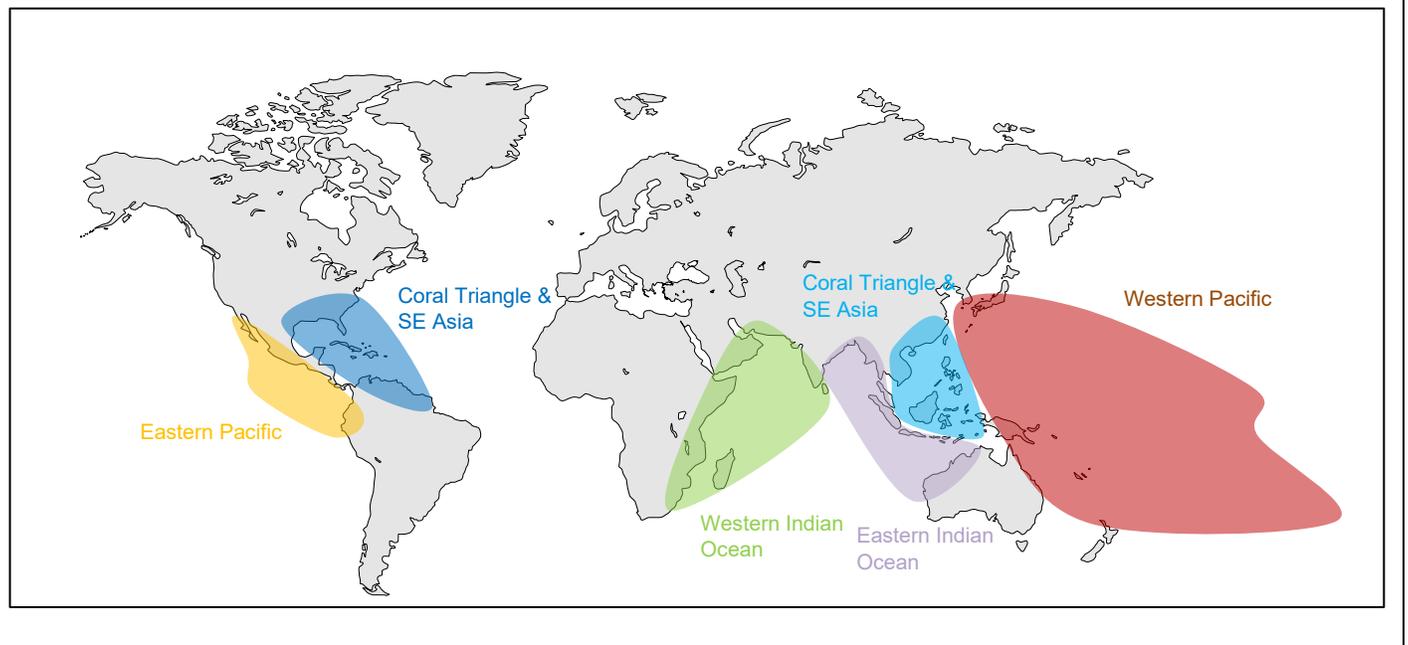
¹⁸ IPCC, 2013: Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Stocker, T.F., D. Qin, G.-K. Plattner, M. Tignor, S.K. Allen, J. Boschung, A. Nauels, Y. Xia, V. Bex and P.M. Midgley (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, 1535 pp, doi:10.1017/CBO9781107415324.

¹⁹ Hoegh-Guldberg, O., R. Cai, E.S. Poloczanska, P.G. Brewer, S. Sundby, K. Hilmi, V.J. Fabry, and S. Jung, 2014: The Ocean. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Barros, V.R., C.B. Field, D.J. Dokken, M.D. Mastrandrea, K.J. Mach, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L. White (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 1655-1731.



Corals die if they get too hot. Globalized and intensifying anthropogenic impacts on coral reefs, coupled with increasing seawater temperatures and changing ocean chemistry, have transformed coral and fish communities, reduced coral growth rates, diminished the capacity of coral reef ecosystems to be resilient to shocks, undermined the ability of coral reef ecosystems to maintain structures, and severely weakened their ability to continue providing valuable ecosystem goods and services to people. Increasing anthropogenic and climate pressures have caused the loss of half the live coral cover on coral reefs over the last 30–50 years. Local pressures have also severely impacted 60% of reefs and the combination of local anthropogenic disturbance and ocean warming means that up to 75% of reefs are already considered threatened²⁰. Of even greater concern is that even lower greenhouse gas emission scenarios (such as Representative Concentration Pathway RCP 4.5) are likely to drive the elimination of most warm-water coral reefs by 2040–2050. Coral reefs are projected to decline to 10-30 per cent of former cover at 1.5°C warming and to less than 1 per cent at 2°C warming (IPBES 2019). At current rate of warming (RCP 8.5) the coral biome could be effectively extinct (<1% live cover) by the middle of this century.

Figure 3: Coral Reef Provinces²¹

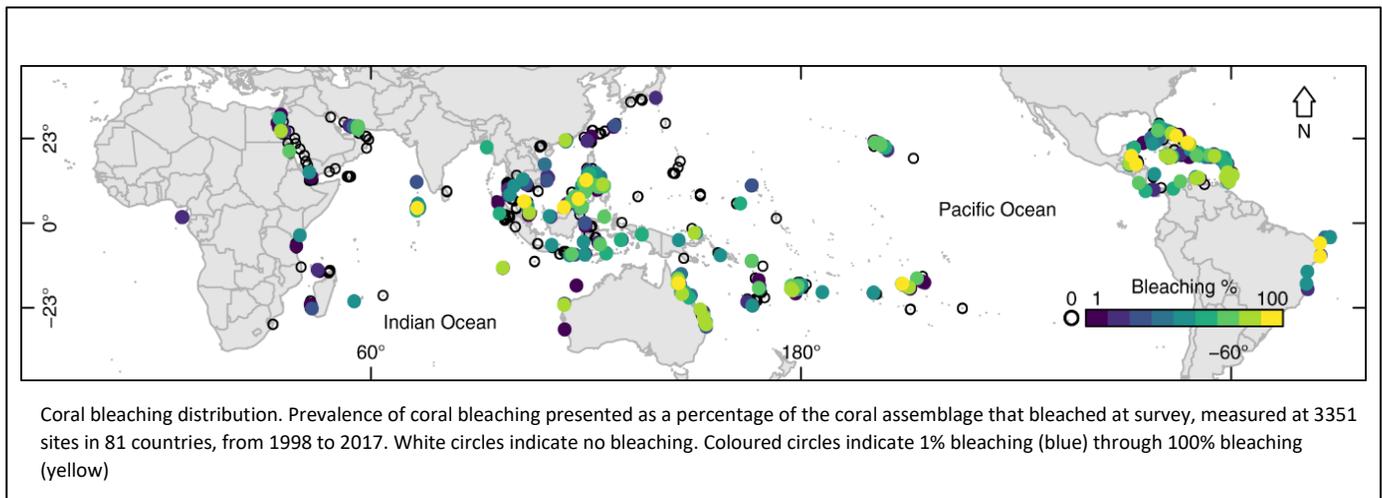


²⁰ L. Burke, K. Reyta, M. D. Spalding, A. L. Perry, Reefs at Risk Revisited (World Resources Institute, The Nature Conservancy, WorldFish Center, International Coral Reef Action Network, UNEP World Conservation Monitoring Centre, and Global Coral Reef Monitoring Network, Washington, DC, 2011).

²¹ Hoegh-Guldberg O and Poloczanska ES (2017) Editorial: The Effect of Climate Change across Ocean Regions. *Front. Mar. Sci.* 4:361. doi: 10.3389/fmars.2017.00361

Some reefs are more vulnerable than others. Although the decline in coral reefs is a globally consistent phenomenon (with all reefs showing some form of decline), the rate and extent of reef condition decline contains significant regional and localised variation due to both variation in global and regional ocean conditions and the intensity of local stressors. The western Atlantic appears to have warmed sooner than other areas and began to experience regular bleaching events sooner than most other locations. The abundance of reef building corals had already declined across the Caribbean by more than 80% by the turn of the millennia (1977–2001)²². This is in addition to the problems of intense local stressors on coral reefs in the region whereby the end of last century there had been dramatic phase shift from corals to seaweeds occurring on Jamaican reefs²³. At the same time within the Great Barrier Reef, the decline in coral cover was about 51%. A global study of bleaching over the last two decades reinforces this regional and localised variation with significant bleaching being more widespread and significant within the Caribbean reef areas (figure 4 below).

Figure 4: A global analysis of coral bleaching over the past two decades²⁴



IMPACT OF OTHER HUMAN ACTIVITIES ON CORAL REEFS

Climate change is not the only problem reefs have to contend with. Further to global warming and climate change, ambitions for economic development and a higher quality of life have led to unsustainable practices that degrade coral reef ecosystems. These include overfishing, destructive fishing (e.g., blast and cyanide fishing), nutrient loading from agricultural runoff, litter (e.g., plastics and derelict fishing gear), the drainage of coastal wetlands, discharge of sewage, fertilizers and other contaminants into coastal waters and the deforestation and reclamation of mangrove forests in particular for urban development and aquaculture, irresponsible tourism and poor waste management (e.g., untreated sewage effluent, chemical leaks). These local drivers of degradation are deteriorating the resilience of coral reef ecosystems to climate change and jeopardizing vital ecosystem services for which the reef-dependent communities in the targeted countries have few other alternatives for income, subsistence and coastal protection. Root causes of local degradation of coral reef ecosystems include:

- **Overfishing and poor management of reef resources.** A major driver of reef degradation is the impact of both artisanal and industrial fisheries. Excessive catch sizes coupled with destructive methods can decimate fish populations and damage the reef structure. The problem is often compounded by the absence of a coherent management strategy for reef resources. Interventions such as fishing licenses, marine protected areas and minimum size controls can all reduce the pressure on coral reefs. Most important is the need for adequate funding and enforcement of management policies. Greater funding and integration of relevant climate information into the MPA management structure is needed to ensure that MPA coverage is

²² Gardner, T.A.; Côté, I.M.; Gill, J.A.; Grant, A.; Watkinson, A.R. Long-Term Region-Wide Declines in Caribbean Corals. *Science* 2003, 301, 958–960.

²³ Hughes, T. P. 1994. Catastrophes, phase shifts, and large-scale degradation of a Caribbean coral reef. *Science* 265:1547–1551.

²⁴ Sully, S., Burkepile, D.E., Donovan, M.K. et al. A global analysis of coral bleaching over the past two decades. *Nat Commun* 10, 1264 (2019). <https://doi.org/10.1038/s41467-019-09238-2>

increased, climate-proofed and managed effectively to sustain ecosystem services and adaptation benefits provided by coral reefs and related ecosystems.

- **Poverty and the lack of economic opportunities.** Reef-dependent communities often consist of vulnerable populations, mostly women, girls and indigenous communities who are disproportionately affected by climate variabilities, with few opportunities to generate income. In the targeted countries more than 85 million people (17% of total) live on less than US\$1.90 per day and over 323 million people (63% of total) live on less than US\$5.50 per day²⁵. To support their families, individuals will resort to overfishing, destructive fishing, destruction of mangroves for timber and unsustainable aquaculture (such as intensive shrimp farming). These economic models deliver short-term benefits but have been shown to be ill suited to supporting wealth creation for the poorest and most marginalised²⁶. More sustainable models of aquaculture, fishing and tourism need to be adopted. In addition, diversified economic opportunities are needed for reef-dependent communities to reduce pressure on reefs.
- **Increasing coastal development.** Development of coastal areas, including large tourism and infrastructure projects, often fail to account for the detrimental effect they have on coral reefs and related ecosystems. Such activities impact reefs directly through both direct destruction and increased sedimentation from poorly managed construction. Coastal development must take into account the impact on coral reefs and associated ecosystems. In particular, we need to factor in the importance of the role reefs play in climate resilience.
- **Unsustainable or uncontrolled tourism.** Most tour operators and managers have limited knowledge about the impacts of climate change on coral reefs and its potential impact on tourism and their livelihoods. Furthermore, a lack of understanding of the impacts of irresponsible coral reef tourism means that reefs can be severely degraded by tourists touching, polluting or breaking off parts of the reef. Overcapacity of sites can lead to stressful conditions for marine and coastal species. Responsible or regenerative tourism practices must be integrated to transform the sector away from coral reef degradation in target countries.
- **Pollution & waste.** Communities in the targeted countries often have poor systems in place for the treatment of sewage, wastewater, floodwater and agricultural runoff including erosion and sedimentation. This can lead to increased algal growth, the smothering of reefs from sediments and compromised coral physiological and ecological functioning. Financing for renovations in water treatment, and stronger control of agricultural runoff are needed. The management of plastics and other waste can be severely lacking in some coral reef sites. Marine plastics cause untold damage to coral reefs and related ecosystems. Educational campaigns and waste management infrastructure are needed to reduce litter reaching coral reefs, which compromises the health of the entire ecosystem.
- **Limits to our ability to restore coral reefs.** Once degraded or destroyed, coral reefs are extremely hard to restore. Coral reef restoration is a dynamic space that is evolving as new advances emerge. At this stage, it is still difficult to scale-up and speed-up coral reef restoration efforts to keep pace with the rate of degradation. There is a need for greater investment into restoration efforts to identify climate change resilient coral species and techniques to maximize their growth and recolonization in degraded reef habitats.

Local impacts on coral reefs can compound the impact of climate change. Direct human-induced negative impacts on marine biodiversity and coastal habitats exacerbate the impact of ocean warming and acidification. Increasing global climate and local anthropogenic pressures have caused the loss of warm-water coral reefs by at least 50% over the past 30–50 years in large parts of the world's tropical regions. Warm-water coral reefs are largely dependent on the physical and chemical changes occurring in the surface layers of the ocean. Already weakened, coral reefs are more prone to suffer diseases and outbreaks of invasive alien species, which further degrade the ecosystem. Uncontrolled tourism, land reclamation and poorly managed coastal zone development also contributes to the demise of the ecosystem, which undermines the natural assets on which national and local economies are built. These pressures are observed in each of the target countries. From a reef management

²⁵ World Bank Database

²⁶ See for example, Amoako Johnson, F., Hutton, C.W., Hornby, D. et al. Is shrimp farming a successful adaptation to salinity intrusion? A geospatial associative analysis of poverty in the populous Ganges–Brahmaputra–Meghna Delta of Bangladesh. *Sustain Sci* 11, 423–439 (2016). <https://doi.org/10.1007/s11625-016-0356-6>

and policy perspective, climate change and ocean acidification increase the need to abate other stress factors on reefs.²⁷

Local action can help protect coral reefs from climate change. Although, the global outlook for corals is bleak there is evidence from a range of field studies and modelling exercises that suggest that efforts to manage local impacts on coral reefs can ameliorate the impact of rising temperatures and ocean acidification. For example, models suggest that the ability of coral reefs to maintain reef building capabilities and keep up with sea level rise is significantly enhanced if targeted management of local fishing and water quality are undertaken²⁸.

ECONOMIC VALUE OF CORAL REEFS

The global value of coral reefs as an ecosystem service or asset to the economy is well understood. There are several studies which collectively demonstrate that the value in terms of ecosystem services to the tourism and fisheries sectors, as well as coastal protection and safeguarding of coastal infrastructure is indeed very significant.

Reef fisheries provide incomes to the most vulnerable. Six million reef fishers (many of whom are small-scale, traditional subsistence fishers) depend on coastal-reef fisheries, with an estimated value of US \$6.8 billion in 2011²⁹. Women represent about 50% of the workforce in the seafood sector and 80 – 90% in the post-harvest sector³⁰. It is estimated that reefs protect 150,000 km of shoreline in more than 100 countries and territories, reducing wave energy and heights, erosion and storm damage; thus, protecting over 1 billion people (and their property) who live within 100 km of reefs around the world. This results in an estimated reduction of annual expected damages from storms of over \$4 billion globally³¹. As sea levels continue to rise, this protection becomes vital.

Coral reefs are a major tourist attraction. Coral reefs underpin the tourism proposition of many tropical countries. Globally speaking, according to ResourceWatch³², coral reefs attracted an estimated 70 million visitors annually with an associated expenditure of US \$36 billion (prior to COVID-19)³³. Researchers looked at how the value of coral reef tourism was spatially distributed³⁴. It concludes that that over 30% of the world's reefs are of value in the tourism sector with a total estimated value of \$36 billion; over 9% of all coastal tourism value in the world's reef countries.

Coral reefs are economically important across the world. UNEP, the Prince of Wales International Sustainability Unit (ISU) and ICRI conducted a study³⁵ which aims to make the business case for the private and public sectors to invest in protection, preservation and enhancement of coral reef health. The researchers developed a quantitative model of selected interactions between live coral cover and economic returns generated by three sectors: tourism, coastal development and commercial fisheries; in two regions: Coral Triangle and Mesoamerican Reef. More importantly, the study compares future returns between 2017 and 2030 under a “future healthy scenario” or a “degraded reef scenario”. ICRI has also estimated the value of coral reefs in the Indian Ocean and South East Asia regions. And The Nature Conservancy did a similar study for the Caribbean. Some key takeaways from these studies:

²⁷ Ove Hoegh-Guldberg, Elvira S. Poloczanska, William Skirving and Sophie Dove 2017, Coral Reef Ecosystems under Climate Change and Ocean Acidification *Front. Mar. Sci.*, 29 May 2017 <https://doi.org/10.3389/fmars.2017.00158>

²⁸ Cacciapaglia, C.W. and van Woesik, R. (2020), Reduced carbon emissions and fishing pressure are both necessary for equatorial coral reefs to keep up with rising seas. *Ecography*, 43: 789-800. <https://doi.org/10.1111/ecog.04949>

²⁹ Burke, L., Reynter, K., Spalding, M., Perry, A. (2011) *Reefs at Risk Revisited*. WRI publication. Available at: <https://www.wri.org/publication/reefs-risk-revisited>.

³⁰ Northrop, E., et al. 2020. “A Sustainable and Equitable Blue Recovery to the COVID-19 Crisis.” Report. Washington, DC: World Resources Institute. Available online at <http://www.oceanpanel.org/bluerecovery>

³¹ Beck, M.W., Losada, I.J., Menéndez, P. *et al.* The global flood protection savings provided by coral reefs. *Nat Commun* 9, 2186 (2018). <https://doi.org/10.1038/s41467-018-04568-z>

³² [Coral Reefs | Resource Watch](#)

³³ Spalding, M, Burke, L, Wood, S, Ashpole, J, Hutchison, J & Zu Ermgassen, P 2017, 'Mapping the global value and distribution of coral reef tourism', *Marine Policy*, vol. 82, pp. 104-113. <https://doi.org/10.1016/j.marpol.2017.05.014>

³⁴ Spalding, M, Burke, L, Wood, S, Ashpole, J, Hutchison, J & Zu Ermgassen, P 2017, 'Mapping the global value and distribution of coral reef tourism', *Marine Policy*, vol. 82, pp. 104-113. <https://doi.org/10.1016/j.marpol.2017.05.014>

³⁵ “The Coral Reef Economy”, ICRI, UN Environment, ISU. October 2018.

- Mesoamerican Reef (Mexico, Belize, Guatemala and Honduras). Total economic returns between 2017 and 2030 under the healthy scenario are estimated at \$108 billion to 2030 under the healthy scenario, compared to \$73 billion to 2030 under the degraded scenario. This represents a net-benefit from healthy reefs of \$34.6 billion in the 14 years.³⁶
- Coral Triangle (Indonesia, Philippines, Malaysia, PNG, Solomon Islands, East Timor). Total economic returns between 2017 and 2030 under the healthy scenario are estimated at \$225 billion to 2030 under the healthy scenario, compared to \$188 billion to 2030 under the degraded scenario. This represents a net-benefit from healthy reefs of \$36.7 billion in the 14 years.³⁷
- Indian Ocean. It is estimated that 28,000 km² of reefs provide US \$2 billion annually to the economies of the countries bordering the Indian Ocean. 70% of the benefits are in the tourism sector, while fisheries represent the remainder. Almost 3,000 businesses depend on coral reef health and at least 1.5 million people rely on reef fisheries for their livelihood.³⁸
- Southeast Asia. Some 70,000 km² of reefs in the region provide tangible benefits of US \$10.6 billion annually to the economies of the countries. Tourism represents almost 55% of this value, while fisheries represents the remainder.³⁹
- Caribbean. Researchers reveal that the total value for all reef-associated tourism is estimated to be over \$7.9 billion of expenditure annually, from 11 million visitors⁴⁰.

ADAPTATION RATIONALE

Coral reefs will need all the help they can get in the coming decades. As explained above, widespread loss and degradation of coral reefs due to climate change is expected over the coming decades, however the impact of climate change and the resilience of coral reefs is greatly influenced by the presence and management of local stressors. Although mitigating the global increase in sea surface temperature and ocean acidification are widely out of the control of local efforts, protecting priority coral reef ecosystems and addressing local anthropogenic stressors makes reefs more resilient to the effects of climate change and better adapted to rebound from bleaching events.

Reef adaptation requires new economic models for coastal communities. To adapt to the threat of climate change, reef-dependent communities need to transform their relationship with coral reefs in a way that brings together the sustainability of the ecosystem and ecosystem services and dependent livelihoods. New sustainable business models and practices, particularly in the tourism, fisheries, and coastal industries are needed to eliminate drivers of degradation and galvanize the resilience of coral reefs and thus the communities that rely on them. For this to occur, additional investment, particularly from the private sector, needs to be mobilised.

Prioritise protecting the reefs with the greatest potential to survive. To increase the resilience of coral reefs and the ecosystem services they provide to climate change, significant global reductions in greenhouse gas emissions are urgently needed. At the same time and just as urgently, we need to focus on protecting those reefs that have the greatest potential to survive in a warming and acidifying ocean from local stressors, in order to significantly enhance their adaptive capacity to climate change. These reefs then have the potential to act as source reefs from which corals can regenerate in the future if climate conditions can be stabilised. Key strategies to include in these actions include identifying and protecting reef areas that are naturally resistant to climate change impacts, reducing sources of pollution that increase sensitivity of corals or increase their susceptibility to disease, preventing damage to reefs through poor boating practices or destructive fishing, preventing overfishing of herbivorous fish and restoring places of ecological priority following stress events.

³⁶ "The Coral Reef Economy", ICRI, UN Environment, ISU. October 2018.

³⁷ "The Coral Reef Economy", ICRI, UN Environment, ISU. October 2018.

³⁸ ICRI. Indian Ocean Fact Sheet. 2018. Available at: https://www.icriforum.org/wp-content/uploads/2019/12/ICRI%20Indian%20Ocean%20Factsheet_0.pdf

³⁹ ICRI. South East Asia Fact Sheet. 2018. Available at: https://www.icriforum.org/wp-content/uploads/2019/12/ICRI%20South%20East%20Asia%20Factsheet_0.pdf

⁴⁰ The Nature Conservancy. "Reef-Adjacent Tourism Value of Caribbean Coral Reefs". 2018.

Preventing reefs from transitioning away from corals. We recognise that the impacts of climate change are likely to be so pervasive that for most reefs there is little chance of effective system adaptation irrespective of which emissions scenario is followed. The reality is that, for many current reef ecosystems, there will likely be a localised forced transition to another ecological state such as an algal dominated community without the reef-associated fish assemblages which human communities rely for income and subsistence. The GFCR will focus on interventions that prevent this transition from happening and safeguarding the livelihoods of reef-dependent communities. In this basis, the adaptation pathway for coral reefs needs to attempt to avoid such systemic transformation of the basic ecosystem.

Identifying those reefs that can act as climate refugia. Identifying and protecting areas of the ocean where conditions are most stable is a key tool for adaptation to climate change. As was the case during historical periods of climate change, climate refugia — areas retaining suitable habitat despite regional climate change — are likely to be critical in preventing considerable loss of biodiversity. Climate refugia have been recommended by numerous authors as a key component of any climate change and biodiversity adaptation program⁴¹. Therefore, their protection is becoming a commonly prioritized conservation target. These climate refugia should be incorporated into Marine Protected Areas, which can provide a safe haven for species in a changing environment, buffering them against preventable habitat loss, fragmentation and localized-climate change.⁴² Ideally, for coral reefs, refugia should be selected to buffer regional changes in stressors related to climate change, in particular ocean temperature and acidity over decades or centuries. Specifically, for coral reefs these climate refugia need to be selected and managed to optimise six key criteria⁴³. These include long-term buffering, multistressor protection, accessibility, microclimatic heterogeneity, size and low exposure to other disturbances.

Deploying investments to ensure resilience Ultimately, for these refugia to be effective in maximising long term persistence they need to be incorporated into a coordinated program that integrates global and local threat management and adaptation. This broader approach relies on strong global climate action to reduce greenhouse gas emissions, prioritising investment to regions with greatest potential to ensure resilience, identification of regional threats and potential solutions and to implement strategies to reduce local co-stressors on coral reefs^{44, 45}. For the latter, key interventions include (1) targeted action to reduce non-climate impacts (2) protection of key ecosystem features (3) ensuring connectivity between reef systems (4) work to restore the structure and function of reefs (5) support for evolutionary potential (6) relocate organisms where possible and (7) prioritise the protection of refugia.

ADAPTATION BARRIERS

The following barriers have hindered the development of a robust pipeline and investment opportunities in coral reef protection and restoration as well as blue economy businesses, which are defined as the sustainable use of ocean resources for economic growth, improved livelihoods and jobs, and ocean ecosystem health. Investors are still unfamiliar with the promising opportunities of investing in businesses that safeguard or restore marine and coastal natural capital, which is accompanied by a perceived high level of risk that inhibits private finance from being funnelled towards effective protection and management of coral reef ecosystems on which so many depend for their lives and livelihoods.

- **Low awareness of the economic importance of coral reefs.** Many decision makers are unaware of the importance of coral reefs – both to today’s economy and for future climate resilience. The consequence is unsustainable use of coral reef ecosystem resources for short-term gain and underestimation of the true economic value of coral reefs and related

⁴¹ Keppel G, Van Niel KP, Wardell-Johnson GW et al. (2012) Refugia: identifying and understanding safe havens for biodiversity under climate change. *Global Ecology and Biogeography*, 21, 393–404

Tzedakis, P.C., Lawson, I.T., Frogley, M.R., Hewitt, G.M., and Preece, R.C., 2002, Buffered tree population changes in a Quaternary refugium: Evolutionary implications: *Science*, v. 297, p. 2044–2047.;

C. D. Jones, P. Ciais, S. J. Davis, P. Friedlingstein, T. Gasser, G. P. Peters, J. Rogelj, D. P. Van Vuuren, J. G. Canadell, A. Cowie, R. B. Jackson, M. Jonas, E. Kriegler, E. Littleton, J. A. Lowe, J. Milne, G. Shrestha, P. Smith, A. Torvanger, A. Wiltshire (2016). Simulating the Earth system response to negative emissions. *Environmental Research Letters*, 11(9), doi: <http://dx.doi.org/10.1088/1748-9326/11/9/095012>

⁴² UNEP-WCMC and IUCN. 2016.

⁴³ Kavousi, J., & Keppel, G. (2018). Clarifying the concept of climate change refugia for coral reefs. *ICES Journal of Marine Science*, 75(1), 43–49. <https://doi.org/10.1093/icesjms/fsx124>

⁴⁴ Hoegh-Guldberg O, Kennedy EV, Beyer HL, McClennen C, Possingham HP (2018) Securing a Long-term Future for Coral Reefs. *Trends in Ecology & Evolution*: 33(12) <https://doi.org/10.1016/j.tree.2018.09.006>.

⁴⁵ J west et al 2017. Climate-Smart Design for Ecosystem Management: A Test Application for Coral Reefs *Environmental Management* (2017) 59:102–117 DOI 10.1007/s00267-016-0774-3

ecosystems. There is inadequate information on climate vulnerabilities of coral reef ecosystems for medium- to long-term local level adaptation planning and investment. This undervaluation has led to a lack of public and private funding for initiatives that protect and enhance the health of coral reefs and associated ecosystems.

- **Policy, institutional and regulatory gaps.** International and national policies have not been ambitious or effective enough to address the impacts of climate change on coral reefs and prevent their degradation. Ministries and Authorities regularly fail to balance coastal and marine zone development with social or environmental imperatives or integrate climate change impacts into planning and management, and legal and regulatory frameworks are insufficient to prevent degradation or even destruction of coral reef ecosystems. Capacity development to improve awareness of (1) the drivers of community vulnerabilities and livelihoods and (2) the true value of coral reefs and related ecosystems as natural assets that underpin local economies and subsistence is required to upgrade protection and management of these ecosystems. Integration of natural capital accounting systems (for coral and related ecosystems) could help overcome this barrier. Equally, opportunities to link public and private sector investment in activities that incentivise and support effective coral reef protection and management to enhance their resilience must be encouraged.
- **Capacity constraints.** There is limited national and local financial and technical capacities to promote climate-adaptive livelihoods that bolster the resilience of coral reefs and related ecosystems. Communities require technical assistance and knowledge on the ecological impacts of degraded reefs. They would also benefit from technical assistance on good business practices to implement innovative financial mechanisms and benefit the community and the reef system. Women in particular require opportunities to lead initiatives that support coral restoration and revive marine/coastal ecosystems.
- **Limited private finance for reef adaptation and conservation.** Increasingly private investment capital and innovative finance tools are needed to efficiently scale-up initiatives to save coral reefs and build the resiliency of communities that depend on them. Additionally, the enabling financial ecosystem is often lacking to channel finance to coral reef climate resilience and adaptation. Loan borrowers are subjected to high interest rates that comprise the ability to get sustainable blue economy projects and business off the ground. Credit requirements can be so high that makes it impossible for local entrepreneurs to obtain a loan in the first place. Public investment, which provides an important platform for private sector growth and development, is also frequently limited.
- **The impact of the pandemic on tourism.** Coral reef tourism accounts for \$36 billion US dollars a year in coral reef countries. Of that, \$19 billion comes from “on-reef” tourism: Diving, snorkelling, glass-bottom boating, and reef-related wildlife watching. The other \$16 billion is from “reef-adjacent” tourism, which includes enjoying beaches, local seafood, paddle-boarding, and other activities afforded by sheltering adjacent reefs.¹³ The tourism industry has been devastated by the ongoing pandemic. International tourist arrivals decreased by more than half and some \$320 billion in exports from tourism were lost in the first 5 months of 2020. Millions of jobs are affected, many of which are in the informal economy or MSMEs.⁴⁶ While the economic recession is a barrier to boost conservation finance, there is also a once in a lifetime opportunity to make sure tourism is built back greener, safer, and in a climate-friendly and equitable manner.

Significant groundwork has been undertaken to identify the key threats to coral reef ecosystems and the communities who depend upon them. The learnings from which have been integrated throughout this document and its annexes, and which will inform implementation of the programme.

ADAPTATION PATHWAY FOR THE GFCR-IW

Climate change adaptation interventions focused on ecosystems generally attempts to achieve one more of three broad goals.

1. Maintenance of ecosystem services for a target population or region
2. Maximising the persistence of vulnerable ecological communities or species
3. Maximising biodiversity persistence across a region or geographical space

⁴⁶ UN. (2020, August 25). *COVID-19 Tourism Sector Collapse Requires Green, Equitable Rebuilding, Secretary-General Says at Policy Brief Launch* [Press release]. <https://www.un.org/press/en/2020/sqsm20218.doc.htm>

For the GFCR Investment Window the first and second goals are the priorities; to protect vulnerable coastal communities and vulnerable coral reef species. We believe that the third goal – maximising biodiversity – will follow in time if we are able to shepherd coastal communities and coral reef species through the difficult transition period. Therefore, the GFCR Investment Window intends to target the most resilient reefs (identifying climate refugia) by identifying those areas most likely to be either more resilient to climate change or those regions localities where the impacts of climate change will be less extreme, e.g. the “50 Reefs” project⁴⁷. Within this set of resilient reefs, priority should be focussed towards those refugia that provide important local ecosystem services and maximise ecological or conservation value .

We propose to locate the most resilient reefs to climate change and to enable activities that ameliorate or eliminate existing local stressors. It is believed that protecting the identified priority networks of climate refugia coral reefs and reducing local stressors, some ecosystems will survive the impacts of climate change and may help repopulate neighbouring reefs. In terms of which reefs to prioritise, we will select those which offer the maximum human development benefits and the best chance of safeguarding coral reef biodiversity for future repopulation..

1. Maximise support to the most resilient reefs (once identified) to support the most vulnerable populations reliant on those reefs.
2. To create mechanisms and mobilize resources to conserve low climate vulnerability reefs that have potential to reseed to other regions once the climate has stabilized. In selecting these climate refugia, we will also look to maximise biodiversity . Refuge areas with rich biodiversity or high ecological values should receive priority.

There are two risks here. The first is that the process due to inadequate knowledge or poor resolution of data means we do not identify all of the possible climate refugia. The second is that some of the areas classified as refugia are more at risk than assumed. In the first case, the scale of the problem is so vast that no one single program will be able to identify and secondly carry out adaptation activities on all suitable reefs. The assessment we have used is based on the best available data and information we have to date. If the second occurs it means that some of the effort will be spent in areas with limited ecological return. We will manage these risks by (1) using multiple data sources to identify climate refugia and (2) recognise that the resilience-status of the identified refugia remains under review while additional data is collected.

The 50 Reef Initiative. This GFCR’s approach is predicated on the findings of the 50 Reefs initiative, financed by Paul G. Allen Family Foundation, Tiffany & Co. and Bloomberg Philanthropies, which aims to protect 50 Reefs so they are resilient to climate change, promote adoption of science-based fisheries and marine protection policies in 10 countries, and support 20 countries in achieving fishing activity transparency. Importantly, the 50 Reefs initiative has identified an optimum global portfolio of reefs for targeting coral reef conservation that have the potential to survive the impacts of accelerating climate change. This is based on a peer reviewed global analysis of existing reefs against a range of climate and non-climatic existing and projected stressors⁴⁸ (see figure 7 for schematic of selection process). By making the identified coral reefs priority conservation sites, it is expected that these areas will also have the ability to repopulate neighbouring reefs that suffer degradation from climate change. In turn, the project will work with reef-dependent communities to adapt their activities to reduce local impacts on CRAEs to augment the resiliency of reefs. Taking action for the regeneration and protection of coral reefs constitutes a direct intervention to preserve exceptional biodiversity and reduce the exposure and vulnerability of reef-dependent populations and economies at the frontlines of climate change

Projections of Future Coral Bleaching Conditions using IPCC CMIP6 Models. This is a publication by the United Nations Environment Programme (which identifies Indonesia , western Australia, the Bahamas, Madagascar, India, and Malaysia as countries with the highest proportions of climate refugia) and Coral Reef Rescue by WWF: This approach builds on related work undertaken by UNEP’s Coral Reef Unit and WWF’s Coral Reef Rescue initiative (which focuses on building the resilience of coral reefs and the communities dependent on them by securing reefs in 7 main countries–Fiji, Solomon Islands, Indonesia, Philippines, Madagascar, Tanzania and Cuba–that account for 70% of the regeneration capacity of coral reefs globally). It is believed that protecting the identified priority networks of climate refugia coral reefs and reducing local stressors, some ecosystems will survive the impacts of climate change and may help repopulate neighbouring reefs.

⁴⁷ Hawthorne L. Beyer et al (2018) Risk-sensitive planning for conserving coral reefs under rapid climate change Conservation Letters. 2018;11:e12587

⁴⁸ Hawthorne L. Beyer et al (2018) Risk-sensitive planning for conserving coral reefs under rapid climate change Conservation Letters. 2018;11:e12587

These global studies assume that the biological response to thermal thresholds is consistent and that a rise in a metric such as the Degree Heating Weeks will have a similar impact across the coral reef biome. There is the case however, to consider additional potential coral refugia regions based on the existence of coral genotypes that are less susceptible to thermal stress. Recent studies in the Red Sea have postulated that the restriction of water flow at the southernmost section of the Red sea has established a natural thermal barrier which has led to a natural selection of coral genotypes that are less susceptible to thermal stress⁴⁹. Additional studies have shown that there are relatively high acclimatization potential in the northern populations particularly in the Gulf of Aqaba but limited ability to cope with ocean warming in southern populations that are already existing at the upper thermal margin for corals⁵⁰.

B.2. Theory of change (max. 1000 words, approximately 2 pages plus diagram)

Describe the theory of change and provide information on how it serves to shift the development pathway towards a low-emission and/or climate resilient direction. Provide the diagram of the theory of change (approximately 1 page).

The theory of change should include any barriers (social, gender, fiscal, regulatory, technological, financial, ecological, institutional, etc., as relevant) that need to be addressed. Use a results chain of inputs, activities, outputs, outcomes, and impact statements, and identify the how and why of causal relations to deliver the project's expected results.

The goal of the GFCR investment window is to enhance the resilience and adaptive capacity of coral reef ecosystems and the communities that are highly dependent upon them to climate change and biodiversity loss, through unlocking and de-risking private investment.

The ultimate beneficiaries of the GFCR are the men and women located in the regions where investments will be deployed, who depend on coral reefs for food, protection, and income. Coral reefs are a crucial ecosystem for life underwater, they protect coastal areas by reducing the power of waves hitting the coast and provide a crucial source of income for millions of people – in 2019, over 350 million jobs were estimated to be linked to ocean activities and global tourism revenues linked to coral reefs totalled US\$ 36 billion. Immediate beneficiaries will also include citizens who will be directly employed and local and national authorities where projects will be developed and companies deploy their services, benefitting from improved resilience of their economic and social, as well as ecological ecosystem. Beneficiaries of the GFCR will include all the project developers and entrepreneurs that will be supported financially. Compliance with the GFCR Fund's ESMS criteria, rigorous safeguarding, gender framework and climate impact design will also build their capacity to engage co-investors.

The programme is designed to deliver ecological, social, and economic resilience to coral reef ecosystems and the communities that depend on them, which are currently threatened by climate change and other drivers of degradation (e.g., pollution, overfishing, destructive fishing techniques, etc.) through a blended finance model that can unlock private capital and address current financing barriers. The GFCR Investment Window is the first at-scale solution focusing on addressing the degradation of coral reef ecosystems through enhanced adaptation, based on the latest science (see the previous section). This means not only supporting direct restoration activities on reefs that have the greatest chance of survival, but also creating new economic opportunities that address key drivers of degradation while sustaining livelihoods in the long-term. Given the dire outlook for coral reefs survival even in a 1.5-degree Celsius global warming scenario, implementing a strategy that can reduce current stressors while generating economic and social benefits is key.

The goal of the GFCR Fund is also to mobilise private capital, through an effective use of public capital, for this agenda. The political momentum and investor interest around ocean ecosystems is growing: 14 countries forming the High-Level Panel for a

⁴⁹ Fine, M., Gildor, H., & Genin, A. (2013). A coral reef refuge in the Red Sea. *Global change biology*, 19(12), 3640-3647.

⁵⁰ Sawall, Y., Al-Sofyani, A., Hohn, S. et al. Extensive phenotypic plasticity of a Red Sea coral over a strong latitudinal temperature gradient suggests limited acclimatization potential to warming. *Sci Rep* 5, 8940 (2015). <https://doi.org/10.1038/srep08940>

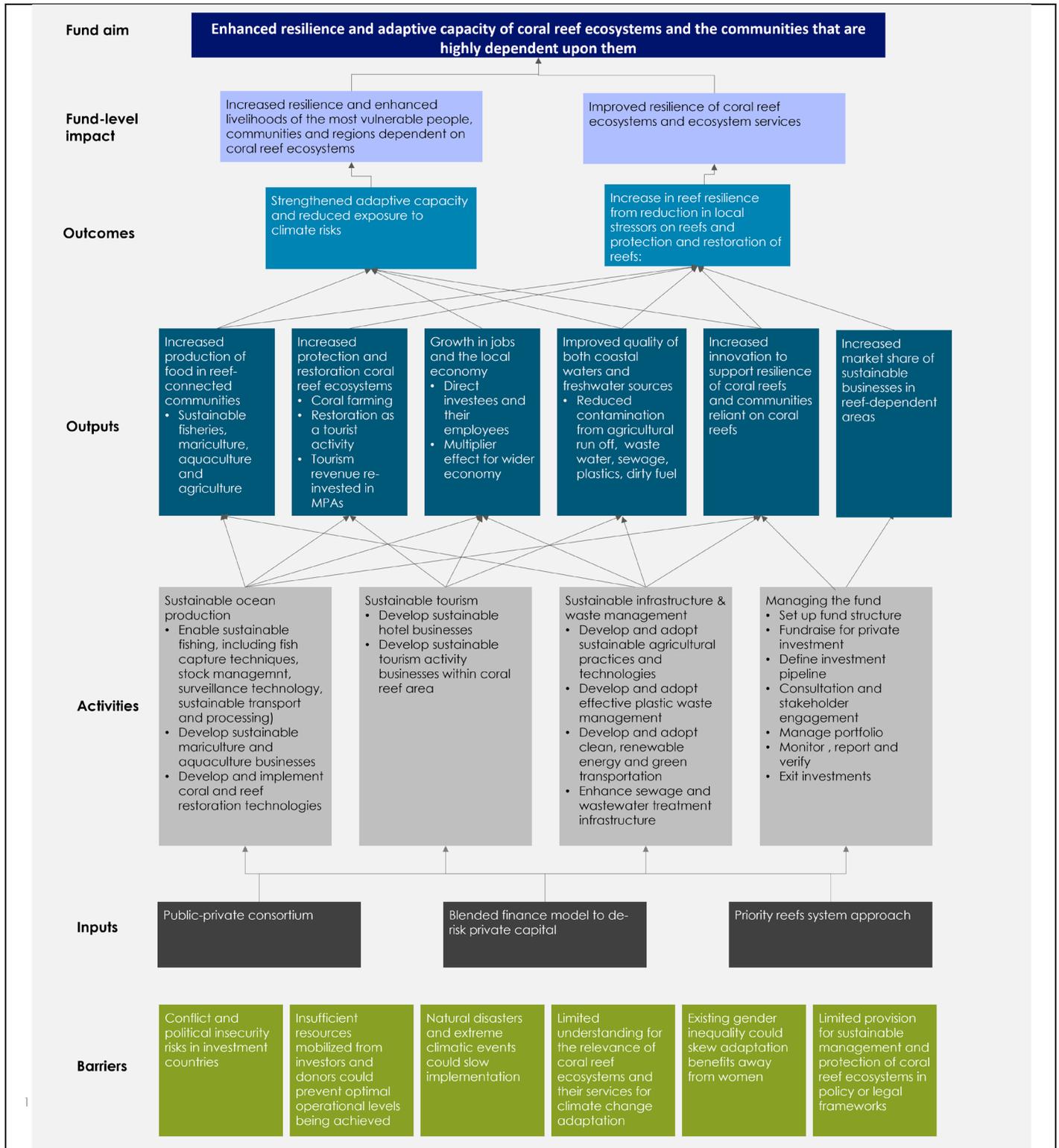
Sustainable Ocean Economy have committed to sustainably managing 100% of their waters. In a recent survey, 72% of investors have confirmed their interest in investing in a sustainable ocean economy⁵¹.

However, there are currently a handful of ocean-focused funds globally that usually target only one area of the ocean economy (e.g. waste infrastructure, food production, plastic pollution, fisheries), but there is no initiative at scale that can enable private investors to deploy capital in the conservation and restoration of coral reefs in developing countries. The \$500 million GFCR Investment Window seeks to bridge that gap, with the support of the Green Climate Fund's contribution to the junior tranche of the Investment Window that will enable greater private investment mobilisation.

The programme level Theory of Change for the GFCR Investment Window is shown in a diagram Figure 8, and an explanation is detailed below.

Figure 8: GFCR Investment Window Theory of Change

⁵¹ Responsible Investor Research and Credit Suisse. 2020. Investors and the Blue Economy. <https://www.esg-data.com/reports>.



Inputs of the programme include:

Public-private consortium: the programme will be delivered by Pegasus Capital Advisors as the executing entity, with the support of its extensive network of technical partners such as SYSTEMIQ, BNP Paribas and others. In addition, the Global Fund for Coral Reefs has the support of the UN Multi-Partner Trust Fund Office (UNDP, UNEP, UNCDF), the German and UK Government and

private foundations Vulcan and Prince Albert II of Monaco Foundation. These partners are designing a parallel window providing grants to support an enabling environment for investment in coral reef and reef-dependent community resilience (the “GFCR Grant Window”), with funding targeting technical assistance, capacity development, emergency grants, and monitoring and evaluation, as well as contributing to pipeline incubation and sourcing for the Investment Window. While the GFCR Grant Window is expected to be a potential source of investments for the GFCR Fund, its remit includes purely philanthropic endeavours and is therefore distinct from the Investment Window’s commercial goals. Both Pegasus and representatives of the Grant Window will assume roles on a Fund-Level Advisory Board, to be convened once a year, to provide strategic guidance to both the Investment and Grant Windows. Section B4. Implementation Arrangements elaborates further on the details of the relationship between the Grant Window and the Investment Window.

Blended finance model to de-risk private capital: the GFCR Fund is being designed as a blended finance fund, with a junior and senior tranche. The junior tranche commitment is intended to unlock capital from both public investors (multilateral development banks, sovereign wealth funds, public pension providers, etc.) and more importantly private investors (private banks, private pension funds, insurance funds, etc.) who are willing to invest into climate adaptation and coral reef ecosystems but have limited access to attractive opportunities.

Priority reefs systems approach: As explained in the previous section, the GFCR Investment Window will target those sites that best fit the “climate refugia” scientific rationale and which can attract and absorb a range of tailored public and private investments for coral reef protection in developing countries. For each site identified, the GFCR Investment Window will adopt a reef-to-coast systems approach to investing, focusing its efforts on investments that (i) restore coral reefs through existing and new technologies and adaptive approaches (e.g. ecotourism activities, innovative restoration technologies); (ii) address key drivers of degradation by (a) improving the productivity of sustainable ocean resources (e.g. sustainable fisheries, sustainable mariculture, sustainable aquaculture, seaweed production, etc.); (b) reducing or eliminating land-based pollution (e.g. plastic waste management, coastal agriculture to reduce nutrient run-off, sewage and waste-water infrastructure, clean energy and transportation). Businesses and activities will be located on the reef as well as on the coastal area surrounding the reef.

Activities of the programme

Four main categories of activities are identified in the programme TOC.

These include three categories related to three target investment sectors that have been identified: Sustainable ocean production, Sustainable Tourism, and Sustainable Infrastructure and Waste Management. Further details of how these three sectors contribute directly to climate change adaptation pathways can be found in the Annex 25, Theories of Change for Investment Sectors. Additionally, an explanation of the rationale for the choice of these sectors is provided in section B3.

The fourth category relates to the activities required to set up the GFCR investment window. These activities and sub-activities are elaborated in section B3.

The Investment Window of the GFCR will seek to deliver the following high-level outputs:

Increased sustainable production of food: Investment could encompass supporting fishers to adopt more sustainable fish capture techniques (such as baited traps in lieu of blast fishing), helping fishers manage stocks more sustainably, developing surveillance and fishing gear from technological advances or improving the sustainability of transport and processing. Sustainable ocean production can also be achieved through growth in mariculture and aquaculture in a range of markets including seaweed, finfish and shrimp.

Increased protection and restoration coral reef ecosystems: Interventions may enable degraded coral reefs to be restored, for instance through robotic coral farming or artificial reef ventures. Alternatively, tourism investments may improve reef health, such as through enhancing the safety of reef tourism for coral reef ecosystems, or creating revenue streams to reinvest in MPAs.

Growth in jobs and the local economy: Investment and the resulting expansion in local businesses will increase employment rates. Expansion in industries serving investees (e.g. the food sector for Sustainable Tourism, the construction sector for Sustainable Infrastructure etc.) will generate employment creation opportunities. Multiplier effects from additional spending within the local economy – both by tourists and the local employed population – will drive local economic growth.

Improved quality of both coastal waters and freshwater sources: Water quality in coral reef ecosystems and the that depend on them may be improved through multiple avenues. These include improved plastic waste management from new business models and technologies that could contribute to improved plastic use, collection, monitoring, sorting and recycling, improved treatment of sewage and wastewater, the development and adoption of clean, renewable energy and green transportation, and the adoption of organic fertilizers, bio-stimulants or precision agriculture in lieu of conventional inorganic fertilizer use. Together, these can reduce ocean acidity, eutrophication and turbidity, as well as the contamination of drinking water sources used by communities.

Increased innovation to support resilience of coral reefs and communities dependent on coral reef ecosystems: The portfolio may include investments in outside of the country program to allow technology from another country to be imported and implemented in local communities so that the impact can occur in target reefs. In other cases, investment may be directly into businesses in coral reef-dependent communities where the object will be to develop, commercialise and scale technologies and innovations. These innovations could include solutions to enhance coral reef farming, such as micro fragmentation based commercial coral farming, to improve the sustainability of fishing, for instance drone surveillance technologies, or innovations to improve infrastructure and waste management such as digital or artificial intelligence-enabled sorting of plastic waste.

Increased market share of sustainable businesses in reef-dependent areas: by adopting a systems approach in target reefs, the Investment Window will contribute to building sustainable coastal economies and regional capacity in climate-vulnerable countries.

The GFCR will seek to deliver two main outcomes:

Strengthened adaptive capacity and reduced exposure to climate risks: The outputs of the programme will together generate improved food security, reduced exposure to water-borne disease, increased income and diversification of household income, and empowerment – especially of women. These will improve communities’ adaptive capacities and reduce the impact of climate shocks.

Increase in reef resilience from reduction in local stressors on reefs and protection and restoration of reefs: The outcomes identified will together contribute to the maintenance and growth in coverage of coral reefs through conservation and rehabilitation of degraded reefs. They will also seek to limit the key local stressors that negatively impact or constrain reef resilience.

The GFCR will ultimately create two main impacts:

Increased resilience and enhanced livelihoods of the most vulnerable people, communities and regions dependent on coral reef ecosystems to climate change.

Improved resilience of coral reef ecosystems and ecosystem services to climate change.

Together, these impacts contribute to the fund aim of enhanced resilience and adaptive capacity of coral reef ecosystems and the communities that are highly dependent upon them to the effects of climate change.

B.3. Project/programme description (max. 2000 words, approximately 4 pages)

Define the project/programme. Describe the proposed set of components, outputs and activities that lead to the expected Fund-level impact and outcome results. Components should reflect the project/programme level outcomes.

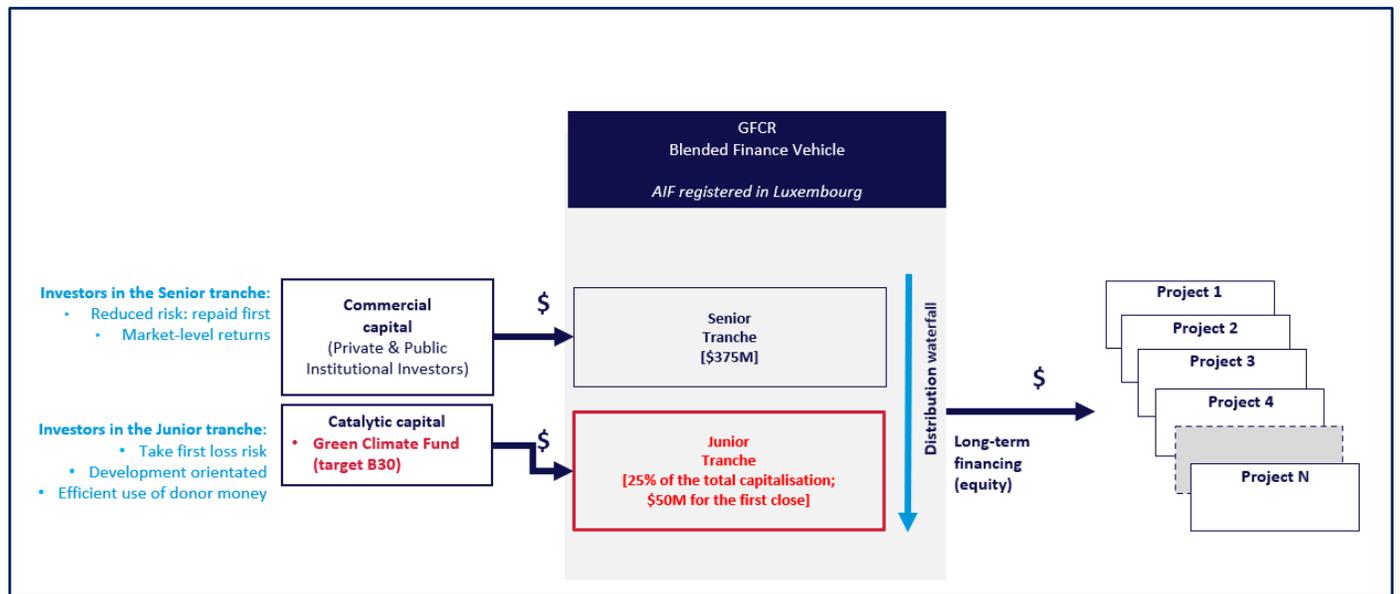
This should be consistent with the financing by component in section C.2, the results and performance indicators provided in section E.5, and the implementation timetable in annex 5.

Referring to the feasibility study, describe why this set of interventions was selected instead of alternative solutions and how the project/programme can help unlock the needed support in a sustainable manner. Also identify trade-offs of the selected interventions, if applicable.

For Enhanced Direct Access (EDA) proposals and projects/programmes with financial intermediation (loans or on-granting), describe the selection criteria of the sub-project and types.

The programme’s primary aim is to strengthen the adaptive capacity of resilient reefs and the communities that depend on them. The programme seeks to achieve this goal by raising a US\$ 500 million fund, the GFCR Investment Window, that will enable the financing of 20-30 companies, projects and platforms across three target sectors (i) sustainable ocean production to address overfishing, destructive fishing techniques, and accelerate restoration, (ii) ecotourism to address unsustainable tourism and accelerate restoration and (iii) sustainable infrastructure addressing pollution. The GFCR Fund will be structured as a blended finance vehicle with a junior and senior tranche (see figure 9). The public contribution to the junior tranche will seek to leverage up to 3x private capital in the senior tranche.

Figure 9: GFCR Investment Window structure



Programme Activities

Four main categories of activities are identified in the programme TOC. These include three categories related to three target investment sectors: Sustainable Ocean Production, Sustainable Tourism, and Sustainable Infrastructure and Waste Management. Further details of how these three sectors contribute directly to climate change adaptation pathways can be found in the Annex 25, Theories of Change for Investment Sectors, which provides Theories of Change at the level of each of these individual sectors, and how they function synergistically to create systemic change.

The fourth category relates to the activities required to set up the GFCR investment window. These activities and sub-activities are elaborated here.

The Accredited Entity will oversee and be responsible for implementing the activities of the programme with support as needed from its network of advisors and service providers such as BNP Paribas and the UN agencies (UNDP, UNCDF and UNEP). Details of the relationship between the Accredited Entity and the Grant Window will be further detailed in the Term Sheet.

Activity E1: Implement the legal structure of, and form, the GFCR Fund and related entities. Consummate first closing with the GCF.

Sub-Activity E1.1: Procure legal services to prepare underlying documentation – It is expected that Kirkland & Ellis LLP will be the primary outside counsel for structuring the GFCR Fund and preparing the related documentation. Pegasus does not expect to engage Kirkland in any material capacity until the Funding Proposal is approved by the Board.

Sub-Activity E1.2: Implement legal structure for GFCR Fund and related entities – See Section B.4 of this Funding Proposal for a description of the legal structure for the GFCR Fund.

Sub-Activity E1.3: Draft formation documents and related Agreements for GFCR entities – See Section B.4 of this Funding Proposal for a description of the legal structure for the GFCR Fund.

Sub-Activity E1.4: Consummate Initial Closing of the GFCR Fund with GCF as anchor investor – The GCF (via GCF Reef Holdings as described in Section B.4 below) will make a capital commitment to the GFCR Fund of \$125 million at the initial closing of the GFCR Fund. Of this commitment, \$25 million will be unconditional at the initial closing, although this amount will be increased to \$50 million so long as the GFCR Fund procures at least \$10 million of additional co-investment at the first closing. The remainder of the commitment will become unconditional at subsequent closings with third-party investors in an amount such that, after giving effect to such closing, the GCF commitment represents no more than 25% of aggregate commitments to the GFCR Fund. Also at the initial closing, the Accredited Entity or one or more of its affiliates will make a capital commitment to the GFCR Fund in an amount equal to 1% of the total commitments to the GFCR Fund.

Activity E2: Fundraise \$375mm of additional capital for the senior tranche.

Sub-Activity E2.1: Prepare fundraising material; evaluate GFCR Fund suitability – The Accredited Entity has extensive fundraising experience, having raised five prior funds and is currently fundraising for the Global Subnational Climate Fund (approved by the Board at B.27). The Accredited Entity may cause the GFCR Fund to engage one or more placement agents to assist in the fundraise.

Sub-Activity E2.2: Draft Private Placement Memorandum and Other Marketing Materials. Market Fund to other investors. The Private Placement Memorandum and other marketing materials will be prepared by the Accredited Entity.

Sub-Activity E2.3: Negotiate with potential investors and close on additional commitments to the GFCR Fund – It is expected that the GFCR Fund would hold several closings over the course of up to 15 months after the initial closing with GCF (subject to extension for up to an additional six months). See the Summary of Principal Terms attached to Annex 14 to this Funding Proposal.

Activity E3: Identify and maintain a pipeline of potential investments

- Sub-Activity E3.1: Early-stage sourcing – Pegasus has extensive experience sourcing and maintaining a pipeline of potential transactions. Unlike most private equity sponsors who rely heavily on auction processes for deal flow, Pegasus has historically sourced the vast majority of its investments outside of an auction process. In fact, every transaction in Pegasus' most recent fund was sourced on a proprietary basis. As a result, Pegasus has, over the course of its 25-year history, built an expansive network of current and former advisors and contacts that it can leverage for potential

transactions (e.g. corporate contacts, incubators, etc.). Furthermore, the Grant Window, in coordination with Convening Agents and key stakeholders will help incubate, source and mature a pipeline of investible projects to be considered by Pegasus for the fund portfolio. In addition, on the ground networks of the GW will be activated to source additional promising deals for the IW in target geographies.⁵² Details of this synergistic arrangement are further outlined in Section B.4.

Sub-Activity E3.2: Develop the pipeline – As the investment period of the GFCR Fund is up to five years after the final closing of the GFCR Fund, Pegasus will regularly evaluate and update the pipeline. Potential transactions will be screened against minimum eligibility criteria, which will be detailed in the Term Sheet. Those opportunities that the Manager determines, in its business judgment, are the most promising will be selected for further due diligence.

Activity E4: Manage the investment activities of the GFCR Fund, perform due diligence on potential opportunities and execute transactions

Sub-Activity E4.1: Perform Due Diligence on proposed deals. The GFCR Fund team seeks to conduct comprehensive due diligence of prospective investments. The due diligence evaluation typically consists of multiple in-person meetings, teleconferences and written questionnaires with members of the potential investment's management. A financial model is typically built using management's projections and key assumptions are subjected to sensitivity analysis. Assuming the GFCR Fund team wishes to proceed, the team will typically enter into a non-binding term sheet with the target company/project that outlines the key terms on which the GFCR Fund team would be willing to make an investment. Throughout the initial evaluation process, the GFCR Fund team is in frequent communication with members of the GFCR Fund's Investment Committee to gauge overall interest in the opportunity and discuss the opportunities and risks associated with the potential investment.

After a term sheet is executed and the GFCR Fund team is granted exclusivity, the team will conduct a full due diligence review of the opportunity, including by engaging third-party advisors as appropriate, including legal, tax, accounting and regulatory, as needed. The GFCR Fund team also conducts due diligence on ESG risks and opportunities in accordance with the ESMS, its ESG Management System, and will engage an ESG Specialist, as appropriate. The depth of the due diligence procedures is based upon the categorization of the investment opportunity and guided, as stated in the ESMS, by the IFC Performance Standards, Equator Principles and CDC ESG Toolkit. Depending on the circumstances, technical consultants may be engaged for additional expertise.

Sub-Activity E4.2: Prepare documentation for Investment Committee. The investment team prepares an investment memo for formal presentation and review by the Investment Committee, which summarizes the investment opportunity and key deal terms. Often times at this point there are several additional iterations of diligence or structure before the Investment Committee is prepared to make a final decision on the proposed transaction. The Investment Committee will then make a formal determination whether or not to proceed with the transaction. Once the Investment Committee has determined to proceed with the transaction, any material changes relating to the transaction will need to be further approved by the Investment Committee.

Activity E4.3: Consummate transactions approved by the Investment Committee. Working with external counsel, the investment team prepares and negotiates final investment agreements. The investment is approved by the AIFM and the transaction is consummated.

Activity E5: Manage the Investment Portfolio

Sub-Activity E5.1: Provide ad-hoc support to Portfolio Companies. From the time of the initial investment, Pegasus seeks to be integrally involved with the growth and development of the its portfolio companies. Most often, this is accomplished through one or more seats on a company's board of directors or similar governing body. In situations where Pegasus holds a minority interest, Pegasus will typically seek to negotiate appropriate contractual rights and

⁵² The GW is not expected to be the sole source of potential transactions for the IW, as the IW expects to also source potential transactions through its own networks.

minority protections. Pegasus seeks to play active role in value creation and portfolio company management post-investment, often working with management teams to establish new strategic initiatives, relationships and distribution channels. When opportunities arise, the Pegasus team and the applicable portfolio company management team work as a unit to drive forward towards a positive result. Pegasus representatives regularly meet with management teams to create and assess progress on growth initiatives.

Activity E5.2: Perform regular evaluation of Portfolio Companies.

Activity E6: Report to the Limited Partners

Sub-Activity E6.1: Collect information of investees, implement verification mechanisms, implement data collection tools

Sub-Activity E6.2: Organize annual audit of the GFCR Fund

Sub-Activity E6.3: Report to LPs on financial results, impacts and beneficiaries. Definitive reporting requirements will be specified in the GFCR Fund's limited partnership agreement. Historically, Pegasus has provided unaudited financial information on a quarterly basis, audited year-end financial statements, and a narrative update on each portfolio company on a quarterly basis.

Activity E7: Exit assets, return capital plus profit to Limited Partners, close out the Fund

Sub-Activity E7.1: Evaluate exit opportunities. The Investment Committee regularly evaluates potential exit opportunities for the portfolio companies. Pegasus also maintains a robust network of financial advisors who can be engaged to assist in the marketing and sale of the GFCR Fund's investments. Members of the GFCR Fund team have extensive experience exiting assets through IPOs, sales to both strategic and financial acquirers and recapitalizations. Due diligence information provided to prospective buyers typically includes information outlining the business case for ESG and any impact investing approaches. This information may include how value was created from ESG.

Sub-Activity E7.2: Negotiate sales transactions

Sub-Activity E7.3: Execute Exit and Distribute Proceeds. "Exit" refers to the GFCR Fund monetizing its interest in an investee company. It is expected that the significant majority of exit transactions will consist of a sale for cash proceeds which are distributed by the GFCR Fund to its limited partners (including GCF), subject to reserves for expenses and contingent liabilities. The GFCR Fund may also seek to structure an exit that allows the GFCR Fund to generate interim cash flows – e.g., annual payments from the project as a percent of revenue or net income.

Sub-Activity E7.4: Liquidate the GFCR Fund after all Portfolio Companies have been fully disposed

Target geographies

As explained in section A, the GFCR Investment Window will target those sites that best fit the "climate refugia" scientific rationale and which can attract and absorb a range of tailored public and private investments for coral reef protection in developing countries.

To identify potential sites for investment, potential countries were screened against three key factors:

1. Climate Change Resilience - based primarily on 50 Reefs Bioclimatic Units (BCUs) presence/absence - only countries with priority BCUs for climate resilience. Climate resilience remains the guiding principle of the fund, and therefore countries with climate resilience references from peer-reviewed studies should be prioritized.
2. UNFCCC Non-annex I Status - Only countries with UNFCCC Non-Annex I Status are eligible due to the grant and concessional financing approach of the GFCR.
3. Investment and Trade Restrictions - Target investors cannot invest in, nor will a custodian/depositary permit investment into, countries with UN, US, and EU sanctions, or other trade restrictions.

For the countries meeting these requirements, additional criteria including ecological reef value, investment risk profile, and reef dependence (% of GDP dependent on reefs) were subsequently applied. Finally, the decision was taken to retain 6 countries as exceptions to this filtering process, either on the basis that they expressed strong interest in involvement in the programme, or that they are countries that form part of a wider multi-country reef system of which some countries were in scope. Ultimately, 32 countries were selected and included in the proposal. The market study (Annex II) gathers more details and information about the sites selected.

The Investment Window will seek to invest in the 17 countries which have provided NOLs, with up to a maximum of 33% of the value of the Investment Window allocated to a single country. The allocation of financing across countries within the program will be commensurate to the number of coral reef refugia, the strength of the pipeline, and the size of the reef-dependent population.

Target Sectors

The GFCR Fund expects to target the following sectors:

1. Sustainable ocean production to address overfishing, destructive fishing techniques, and accelerate restoration
2. Ecotourism to address unsustainable tourism and accelerate restoration
3. Sustainable infrastructure addressing pollution

These have been selected based on (1) **impact**: each investment will be enhancing the resilience of priority reef sites by supporting direct restoration activities, or indirect ones by addressing drivers of degradation; (2) **market sizing**: including analysis on market trends, growth areas, and latest investment rounds; (3) **potential pipeline** scoped. A potential pipeline of [\$US 1 billion] has been identified to be deployed in target sites. More detail can be found in the feasibility study in Annex II (*forthcoming*).

Within these sectors, the GFCR Fund will target investments that:

A. restore coral reefs through existing and new technologies and adaptive approaches (e.g. ecotourism activities, innovative restoration technologies - e.g. artificial reefs ventures, assisted evolution tech companies, coral gardening and sexual propagation ventures); and/or

B. reduce or eliminate key drivers of coral reef degradation such as overfishing, destructive fishing techniques, nutrient loading from agricultural run-off, pollution from litter, discharge of sewage and other contaminants in coastal water, deforestation of mangroves for urban development and aquaculture, non-sustainable tourism and poor waste management.

Structurally, the GFCR Fund expects to primarily take control equity positions in its investee companies, though investments may be made in debt and/or hybrid securities or in minority positions on a case by case basis. Where an investment is not a control position, the GFCR Fund will seek to negotiate appropriate minority protections. Individual investments will be structured on a case-by-case basis in consultation with outside legal and tax advisors, though it is expected that each investment will be structured through one or more newly created special purpose vehicles controlled by the GFCR Fund. Investments may be made at the project level or the corporate level. For investments at the corporate level, the GFCR Fund will ensure that the company deploys an amount of funding in the host countries at least equal to GCF's pro rata portion of the invested capital. In addition, the GFCR Fund may invest in one or more platform companies that serves to aggregate multiple smaller projects in order to leverage and scale project technology and design.⁵³

B.4. Implementation arrangements (max. 1500 words, approximately 3 pages plus diagrams)

⁵³ These platform companies would not have investment discretion, but rather refers to the GFCR Fund aggregating multiple related projects/companies under a single SPV.

Provide a description of the project/programme implementation structure, outlining legal, contractual, institutional and financial arrangements from and between the GCF, the Accredited Entity (AE) and/or the Executing Entity(ies) (EE) or any third parties (if applicable) and beneficiaries.

- *Provide information on governance arrangements (supervisory boards, consultative groups among others) set to oversee and guide project implementation. Provide a composition of the decision-making body and oversight function, particularly for Enhanced Direct Access (EDA) proposals.*
- *Provide information on the financial flows and implementation arrangements (legal and contractual) between the AE and the EE, between the EE or any third party and beneficiaries. For EEs that will administer GCF funds, indicate if a Capacity Assessment has been carried out. Where applicable, summarize the results of the assessment.*
- *Describe the experience and track record of the AE and EEs with respect to the activities (sector and country/region) that they are expected to undertake in the proposed project/programme.*

Provide a diagram(s) or organogram(s) that maps such arrangements including the governance structure, legal arrangements, and the flow and reflow of funds between entities.

Governance of the GFCR Fund:

The investment activities of the GFCR Fund will be overseen by the Accredited Entity, via the GFCR Investment Committee. The Investment Committee will be comprised of a majority of members appointed by the Accredited Entity and will act by majority vote. Pegasus has 25+ years of experience in private equity investment, having deployed five equity funds with an impact-driven approach to investment focused on sustainability, health, and wellness. Senior advisers also retain experience in government engagement and ocean-related investments.

Relationship between the Grant Window and Investment Window

The Grant Window (“GW”) and Investment Window (“IW”) will perform independent but complementary and coordinated roles to seek to maximise impact of the GFCR. The GW aims to establish an enabling environment for the IW, more broadly to financing coral reef resilience initiatives, and ultimately to de-risk private sector involvement in the sustainable blue economy. Grant funding from the GW targets technical assistance, capacity development, emergency grants, and monitoring and evaluation, and contributes to pipeline incubation and sourcing for the IW. The GW also has a philanthropic mandate such that not all of the projects funded by the GW will be appropriate for the IW. The GW delivers its mission with the support of the UN Multi-Partner Trust Fund Office (UNDP, UNEP, UNCDF), the German, French and UK Governments, and private foundations Paul G. Allen Family Foundation and Prince Albert II of Monaco Foundation. Support will also be provided by The Nature Conservancy, Wildlife Conservation Society, WWF, Conservation International, MAR Fund and Blue Finance (collectively, the “Convening Agents”). Although the remit of each Window is distinct, their mandate is the same: to enhance the resilience of coral reefs and reef-dependent communities. To this end, the objectives for each Window and the governance structure of the overall fund have been designed to ensure that the IW and GW work in tandem to deliver key synergies that will maximise the impact of the GFCR.

The integrated dual Window model enables the GFCR to build on the respective strengths and remits of the two Windows, and ultimately to mobilize finance from prospective partners on a global scale to support countries in improving their progress to achieving adaptation to climate change. This collaboration materialises in an iterative, reinforcing dialogue that includes:

- **IW sharing inputs to help identifying GW priorities.** While sourcing its pipeline and engaging with Grant Window Convening Agents and key stakeholders in target geographies, the IW will identify and raise to GW’s attention the pipeline gaps (sectors, technologies, infrastructure, etc.), needs for capacity building, or need for support in policy reforms and enforcement, that can then be addressed through disbursement of targeted grants by the GW.
- **GW supporting development of pipeline for the IW.** The GW, in coordination with Convening Agents and key stakeholders will help incubate, source and mature a pipeline of investible projects to be considered by the IW for the fund portfolio, working for instance with local accelerators and incubators, providing financial support to small and medium enterprises (SMEs), start-up companies and NGOs to develop their commercial activities, and undertaking site-based studies to identify drivers of degradation and potential business models that could address these drivers. In

addition, on the ground networks of the GW will be activated to source additional promising deals for the IW in target geographies.⁵⁴ The IW can also source potential investees independently of the GW. In these cases, the GW will be able to jointly review the investment proposal and Due Diligence as observers in the Investment Committee.

- **GW supporting the IW in the Due Diligence process.** GW capabilities (including technical and scientific expertise), methodologies, local knowledge, and on-the-ground networks can be mobilised to reduce transaction costs and support ex-ante risk measurement and feasibility studies in relation to due diligence work (see Figure 10) as it relates to the impact on coral reef ecosystems and local communities.
- **GW improving and de-risking the business environment.** GW support in target geographies (e.g., increased local capacity, technical assistance, facilitation of dialogue with local policy-makers) is expected to support the sustainable development and growth of IW portfolio companies.
- **GW and IW collaborating on impact methodologies and measurement.** The two Windows will collaborate to ensure the impact of the GFCR is defined, tracked and reported in the most science-based, systematic and transparent way through monitoring by Convening Agents and supported by UNEP.

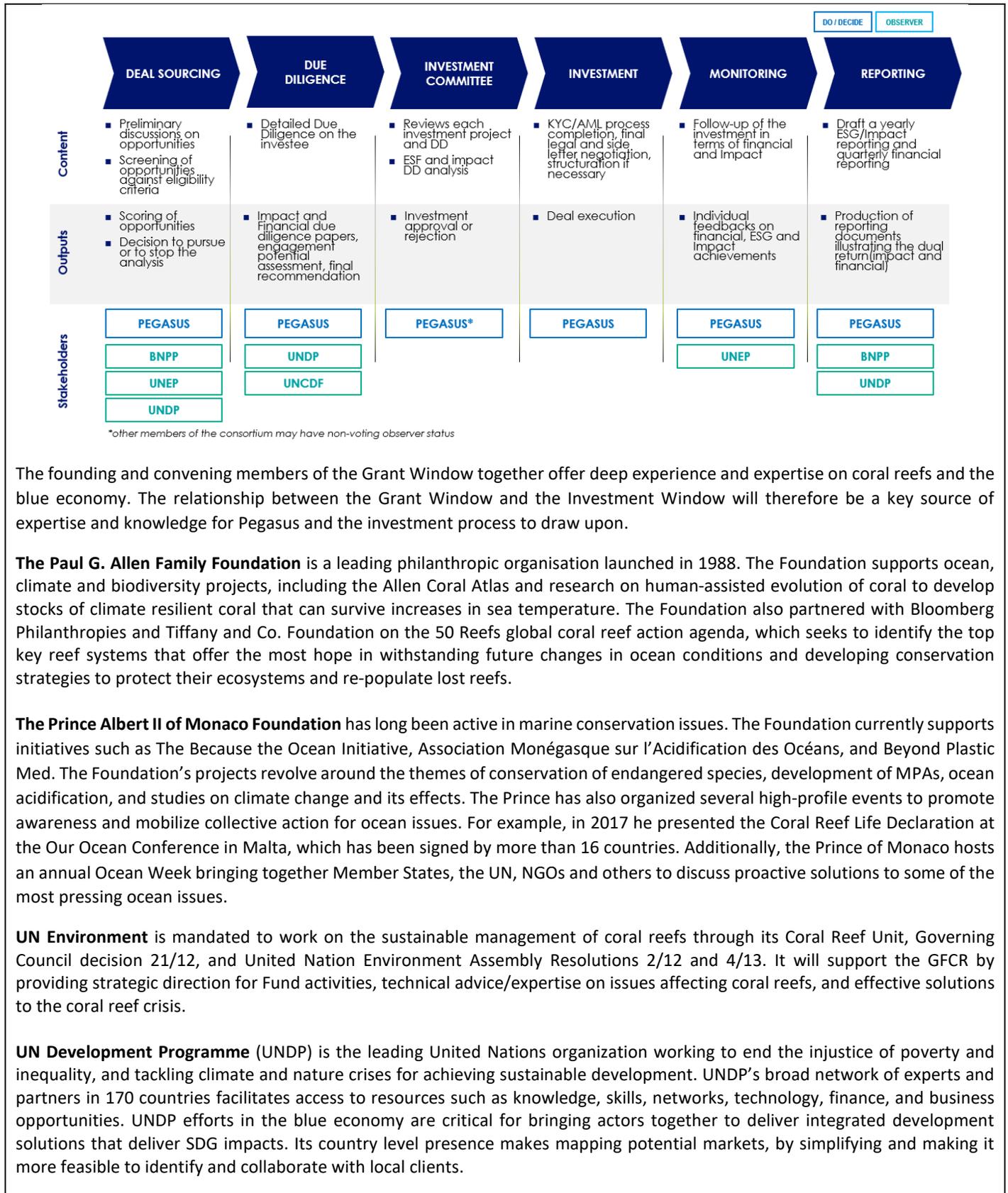
Four main mechanisms have been designed to enable the GW and IW to collaborate productively and in an agile way:

1. **GW as observer in the IW Investment Committee.** Key stakeholders from the GW – the UNEP, UNDP and UNCDF – will be involved in pre- and post-investment activities, including sourcing, due diligence, monitoring and reporting, and will be able to provide guidance, knowledge and access to relevant networks as required.
2. **IW (through Pegasus) as an observer and advisor to the Executive Board of the GW,** whose remit includes approving grant allocations by the GW. This forum will provide the opportunity for Pegasus to enhance their visibility of and influence over the key focus areas for the GW.
3. **Fund-level Advisory Board,** to be convened once a year, **explicitly adopting a shared focus on the strategy for and progress of the two Windows and advising on strategic issues advanced by both the Investment Committee and the Executive Board.** The Advisory Board's scope includes the development of guidance to both Windows based on the evolution of best practices in the fields of coral reef conservation, impact investing (including investment standards), blended finance, investment standards and sustainable business development. The Terms of Reference for the Advisory Board are still under development. However, there is potential for GCF to assume a Technical Advisor role on the Fund-Level Advisory Board as part of the National Governments & Public Institutions members contingent, which would provide line of sight on the future direction of both Windows.
4. **Regular and ad-hoc meetings taking place between the IW and the GW. The UN Global Team and Investment Committee explicitly intend to meet at least bi-annually to align on project and investment priorities.** This channel of communication allows for ongoing and reactive knowledge sharing and evolving discussions on strategic priorities.

Further details of the nature of the arrangement between the GW and the IW will be elaborated in the Term Sheet.

Figure 10: Key Stakeholders from the Grant Window will be involved at multiple stages of the Investment Window investment process

⁵⁴ The GW is not expected to be the sole source of potential transactions for the IW, as the IW expects to also source potential transactions through its own networks.



The founding and convening members of the Grant Window together offer deep experience and expertise on coral reefs and the blue economy. The relationship between the Grant Window and the Investment Window will therefore be a key source of expertise and knowledge for Pegasus and the investment process to draw upon.

The Paul G. Allen Family Foundation is a leading philanthropic organisation launched in 1988. The Foundation supports ocean, climate and biodiversity projects, including the Allen Coral Atlas and research on human-assisted evolution of coral to develop stocks of climate resilient coral that can survive increases in sea temperature. The Foundation also partnered with Bloomberg Philanthropies and Tiffany and Co. Foundation on the 50 Reefs global coral reef action agenda, which seeks to identify the top key reef systems that offer the most hope in withstanding future changes in ocean conditions and developing conservation strategies to protect their ecosystems and re-populate lost reefs.

The Prince Albert II of Monaco Foundation has long been active in marine conservation issues. The Foundation currently supports initiatives such as The Because the Ocean Initiative, Association Monégasque sur l'Acidification des Océans, and Beyond Plastic Med. The Foundation's projects revolve around the themes of conservation of endangered species, development of MPAs, ocean acidification, and studies on climate change and its effects. The Prince has also organized several high-profile events to promote awareness and mobilize collective action for ocean issues. For example, in 2017 he presented the Coral Reef Life Declaration at the Our Ocean Conference in Malta, which has been signed by more than 16 countries. Additionally, the Prince of Monaco hosts an annual Ocean Week bringing together Member States, the UN, NGOs and others to discuss proactive solutions to some of the most pressing ocean issues.

UN Environment is mandated to work on the sustainable management of coral reefs through its Coral Reef Unit, Governing Council decision 21/12, and United Nation Environment Assembly Resolutions 2/12 and 4/13. It will support the GFCR by providing strategic direction for Fund activities, technical advice/expertise on issues affecting coral reefs, and effective solutions to the coral reef crisis.

UN Development Programme (UNDP) is the leading United Nations organization working to end the injustice of poverty and inequality, and tackling climate and nature crises for achieving sustainable development. UNDP's broad network of experts and partners in 170 countries facilitates access to resources such as knowledge, skills, networks, technology, finance, and business opportunities. UNDP efforts in the blue economy are critical for bringing actors together to deliver integrated development solutions that deliver SDG impacts. Its country level presence makes mapping potential markets, by simplifying and making it more feasible to identify and collaborate with local clients.

Blue Finance is a not-for-profit organization developing impact investment projects focused on sustainable finance for marine protected areas (MPA). Their approach is one of the most direct blended finance approaches for coral reef conservation and they have recently been awarded a design grant from Convergence for their work. They are active in multiple coral reef countries with priority BCUs (Indonesia, Philippines, Fiji, Bahamas, Dominican Republic and more).

Conservation International (CI) is a large environmental NGO that works in the world's biodiversity hotspots. Combining fieldwork with innovations in science, policy and finance, they've helped protect more than 6 million square kilometers (2.3 million square miles) of land and sea across more than 70 countries. Additionally, Conservation International has a USD 25M conservation focused venture fund called CI Ventures. They partner with Althelia/Mirova and have a strong interest in blue economy investments. CI also plays a leading role in the Blue Nature Alliance.

The **Mesoamerican Reef Fund** (MAR Fund) was established in 2004 as a private Conservation Trust Fund (CTF) to drive regional funding and partnerships for the conservation, restoration, and sustainable use of the Mesoamerican Reef. Its programmes include: Saving our Sanctuaries – supporting the establishment and protection of an interconnected network of priority coastal and marine protected areas in the region; Fishing for the Future - community participation in co-management of their fisheries; Climate Change - Monitoring climate change effects on the reef and supporting adaptation to climate change. They have also recently developed the Mesoamerican Reef Technical Assistance Facility (MARTAF), to provide financial and logistic support for development of conservation-oriented businesses in the region. Examples of initiatives have included a conservation focused hotel and a wastewater treatment plant.

The Nature Conservancy (TNC) currently operates across more than 100 marine conservation projects. Several of the innovative financing mechanisms being developed by TNC have direct impacts on coral reefs and include an ambitious, global programme to develop Blue Bonds through Debt Conversions, reef insurance mechanisms and the development of novel Blue Carbon Resilient Credits.

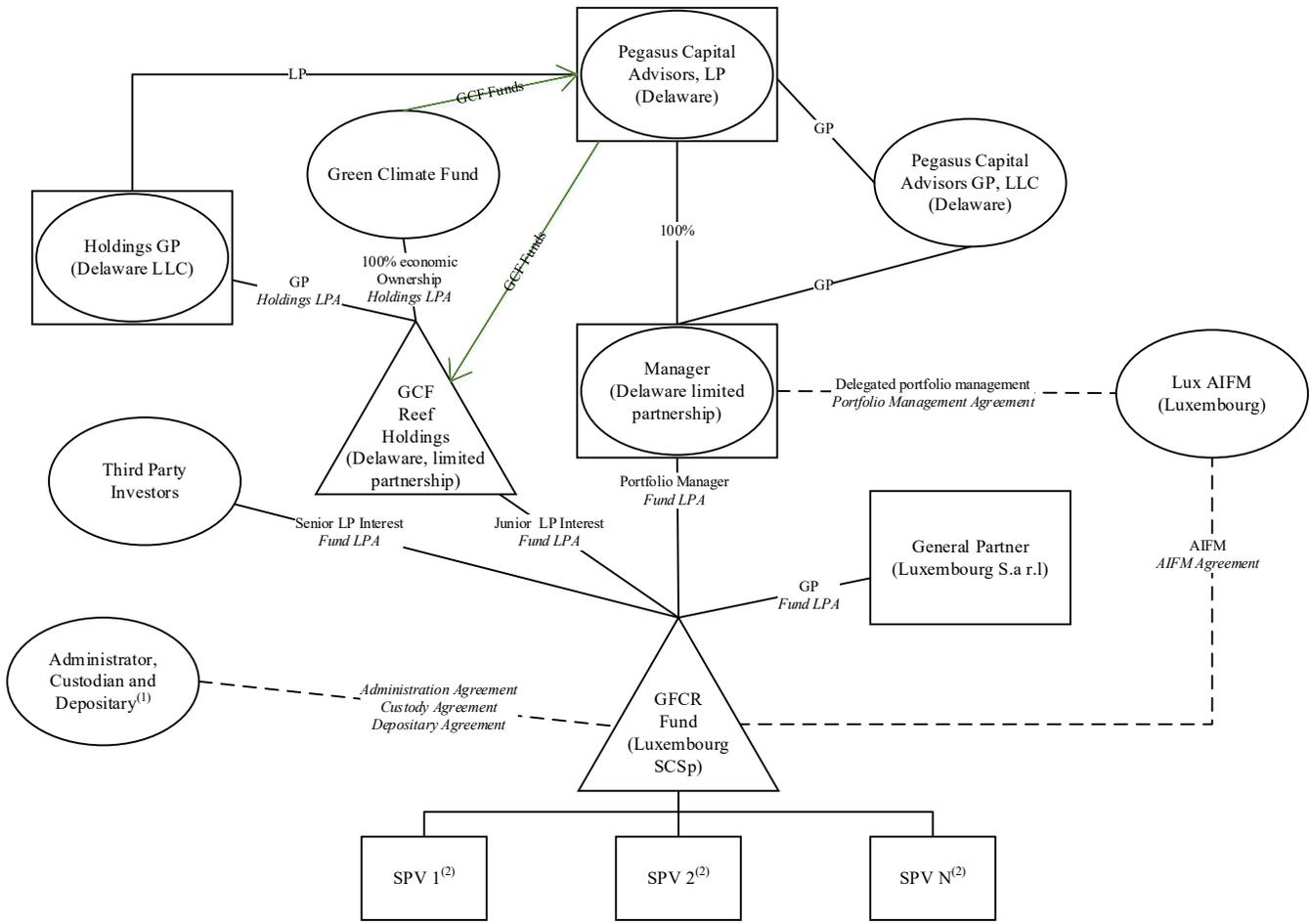
The **Wildlife Conservation Society** (WCS) has an active global conservation programme operating in some of the most intact and resilient places on the planet. WCS has programmes in some of the most important GFCR focal areas including East Africa, the Coral Triangle, and more. The organization has supported business-based approaches to conservation in multiple landscapes.

The **WWF** is a world-leading conservation organisation. There are synergies between WWF and GFCR in likely cooperating countries, and potential for collaboration to accelerate project pipeline development and the financing for sustainable coastal resources management and blue economies for coral safe businesses. Under a project called the Coral Reef Resilience Initiative, WWF is seeking GCF grant funding to provide the necessary institutional enabling conditions and technical assistance to develop pipeline projects and support reef-dependent communities.

Legal Structure of the GFCR Fund

Figure 11: Structure Chart of the GFCR Fund

GFCR Fund – Structure Chart



(1) Shown as a single entity for simplicity, but may be more than one service provider.
 (2) The structure of each underlying investment will be determined on a case-by-case basis in consultation with legal and tax advisors.

Pegasus anticipates the GFCR Fund will be a newly formed Luxembourg SCSp, and its general partner will be a newly formed company wholly controlled by employees of the Accredited Entity, and which Pegasus expects to form as a Luxembourg S.a. r.l.

The GFCR Fund will engage a third party licensed alternative investment fund manager (the “Lux AIFM”) within the meaning of the Luxembourg law of 12 July 2013 on alternative investment fund managers (as amended, the “AIFM Law”). The Lux AIFM will delegate investment decision-making authority to a newly formed entity wholly controlled by employees of the Accredited Entity (the “Manager”).

GCF’s participation in the GFCR Fund will be in the form of a junior limited partnership interest (the “Junior Interest”); provided that, if after the final closing of the GFCR Fund, GCF Reef Holdings represents more than 25% of the total commitments to the GFCR Fund, the portion of GCF Reef Holdings’ commitment in excess of 25% will automatically be converted into senior limited partnership interests (the “Senior Interests”). It is expected that GCF (via GCF Reef Holdings (described below)) will be the sole investor in the Junior Interests. See Annex 1 to this Term Sheet for more details on the Junior Interests.

The GCF proceeds will be channelled to the GFCR Fund through the Accredited Entity on behalf of the GCF. Specifically, the Accredited Entity proposes to establish a holding company with the sole purpose of holding the GCF’s Junior Interest (“GCF Reef

Holdings”). The Accredited Entity expects to form GCF Reef Holdings as a Delaware limited partnership, with the Accredited Entity or a controlled affiliate of the Accredited Entity serving as general partner of GCF Reef Holdings (“**Holdings GP**”).

Third-party investors will acquire Senior Interests in the GFCR Fund pro rata in accordance with the size of their respective capital commitment to the GFCR Fund. The General Partner or its affiliates will also make a commitment to the GFCR Fund in the form of Senior Interests.

Implementation Agreements

The Accredited Entity has proposed that GCF Reef Holdings, acting for the benefit of GCF, will subscribe for the Junior Interests pursuant to the terms of a Subscription Agreement to be entered into between the GFCR Fund and GCF Reef Holdings (the “**Fund Subscription Agreement**”). The Fund Subscription Agreement will set forth the capital commitment of GCF Reef Holdings to the GFCR Fund, which will be \$125 million, and further specify that (i) GCF Reef Holdings will unconditionally commit \$25 million at the initial closing, which amount will be increased to \$50 million if the GFCR Fund procures at least \$10 million of additional co-investment at the first closing and (ii) the remainder of the commitment will become unconditional at subsequent closings in an amount such that, after giving effect to such closing, GCF Reef Holdings represents no more than 25% of aggregate commitments to the GFCR Fund.

GCF Reef Holdings will also be a party, together with the General Partner (on its own behalf) and each additional limited partner in the GFCR Fund, to the Limited Partnership Agreement (the “**LPA**”) of the GFCR Fund, which will set forth the rights and obligations of GCF Reef Holdings as a limited partner.

GCF Reef Holdings and the General Partner signing on behalf of the GFCR Fund, will also enter into a Side Letter to grant GCF Reef Holdings certain additional rights that are specific to the GCF. To the extent necessary, these rights may also be reflected in the partnership agreement for GCF Reef Holdings.

The Subscription Agreement, the LPA and the Side Letter will be executed on GCF’s behalf by a representative of the Accredited Entity in such individual’s capacity as an authorized signatory of GCF Reef Holdings. It is expected that the Subscription Agreement, the LPA and the Side Letter will be governed by Luxembourg law and any disputes in relation thereto will be resolved through arbitration by ICC Arbitration rules to be held in London, United Kingdom, although the final structure will be determined in consultation with outside counsel.

The Accredited Entity has proposed that GCF will subscribe for a limited partnership interest in GCF Reef Holdings pursuant to the terms of a Subscription Agreement to be entered into between GCF and GCF Reef Holdings (the “**Holdings Subscription Agreement**”). GCF will also be a party, together with the Holdings GP, to the Limited Partnership Agreement of GCF Reef Holdings (the “**Holdings LPA**”). It is anticipated that the only partners in GCF Reef Holdings will be the GCF (as sole limited partner and sole economic owner) and the Holdings GP, as the general partner.

The Holdings Subscription Agreement and Holdings LPA will be executed on GCF’s behalf by a representative of the Accredited Entity pursuant to a power of attorney granted by the GCF to the Accredited Entity, which will be included as part of the FAA.

The General Partner on behalf of the GFCR Fund will appoint the Lux AIFM to act as alternative investment fund manager within the meaning of the AIFM Law for the GFCR Fund and enter into an agreement for the purpose thereof which will set out the duties and obligations of the Lux AIFM in relation to the management of the GFCR Fund (the “**AIFM Agreement**”). The AIFM Agreement will be governed by Luxembourg law and any disputes in relation thereto will be subject to Luxembourg courts.

The Manager and the Lux AIFM, in the presence of the General Partner will enter into a portfolio management agreement which will govern the relationship between the Lux AIFM and the Manager in relation to the investment management of the GFCR Fund (the “**Portfolio Management Agreement**”). It is expected that the Portfolio Management Agreement will be governed by Luxembourg law and any disputes in relation thereto will be subject to resolution in Luxembourg courts. The governing law and dispute resolution will be determined with the advice of outside counsel.

Neither the AIFM Agreement nor the Portfolio Management Agreement will be a Subsidiary Agreement. Instead, the Accredited Entity will enter into a Side Letter with the Lux AIFM (the “**AIFM Letter**”) whereby the AIFM acknowledges that Pegasus (as Accredited Entity) has contractually agreed to ensure the AIFM’s compliance with certain terms of the FAA, (ii) confirms that it has been made aware of and has considered such terms and (iii) shall use reasonable best efforts to comply with the applicable obligations contemplated thereby.

The Accredited Entity and the Manager will enter into a Management and Fee Sharing Agreement (the “**Management and Fee Sharing Agreement**”) pursuant to which the Accredited Entity will provide investment advisory services to the Manager in exchange for the management fees received by the Manager.

The Accredited Entity will also enter into a separate agreement (the “**Pegasus Implementation Agreement**”) with (i) the GFCR Fund, represented by the GP, (ii) the GP acting on its own behalf, (iii) the Manager, (iv) GCF Reef Holdings, represented by Holdings GP, (v) Holdings GP acting on its own behalf and (vi) each other Executing Entity (if any) with respect to implementation of the Funded Activity in order to pass down the relevant obligations under the AMA and the FAA is to such entities.

The Pegasus Implementation Agreement, the Management and Fee Sharing Agreement and the AIFM Letter are intended to be a “Subsidiary Agreement” under the FAA.

Responsibilities of Executing Entities

The Activities and Sub-Activities of the GFCR will be implemented by the Executing Entities as follows:

Activity	Sub-Activity	Responsible Executing Entity(ies)
1. E1: Form the GFCR; set up the General Partner and the contracts with licensed AIFM.	1. E1.1: Procure legal services to prepare underlying documentation	Accredited Entity
	2. E1.2: Implement the structure the GFCR Fund and related entities	Accredited Entity
	3. E1.3: Draft formation documents and related agreements for GFCR entities	Accredited Entity
	4. E1.4: Consummate Initial Closing of the GFCR Fund with GCF (via GCF Reef Holdings) as anchor investor	General Partner; GCF Reef Holdings; Accredited Entity
2. E2: Fundraise \$375mm of private investment into Senior Interests	1. E2.1: Prepare fundraising material; evaluate GFCR Fund suitability	Accredited Entity
	E2.2: Draft Private Placement Memorandum and Other Marketing Materials. Market Fund to other investors.	Accredited Entity; General Partner
	2. E2.3: Negotiate with potential investors and close on additional commitments to the GFCR Fund	Accredited Entity; General Partner
3. E3: Manage the Pipeline and Identify a	1. E3.1: Early stage sourcing	Accredited Entity; Manager

Portfolio of Bankable Projects	2. E3.2: Develop the pipeline	Accredited Entity; Manager
4. E4: Manage investment activities; perform Due Diligence; prepare investment documentation for the Investment Committee and AIFM	1. E4.1: Perform Due Diligence on proposed deals	Accredited Entity; Manager
	2. E4.2: Prepare documentation for Investment Committee	Accredited Entity; Manager
	3. E4.3: Consummate transactions approved by the Investment Committee	Accredited Entity; Manager
5. E5: Manage the portfolio, assist portfolio companies in achieving climate mitigation and adaptation, business, as well as SDG and NbS objectives	1. E5.1: Provide ad-hoc support to Portfolio Companies	Accredited Entity; Manager
	2. E5.2: Perform regular evaluation of Portfolio Companies	Accredited Entity; Manager
6. E6: Report to the Limited Partners	1. E6.1: Collect information of investees, implement verification mechanisms, implement data collection tools	Accredited Entity; Manager
	2. E6.2: Organize annual audit of the GFCR Fund	Accredited Entity; Manager; General Partner
	3. E6.3: Report to LPs on financial results, impacts and beneficiaries	Accredited Entity; General Partner
7. E7: Exit Assets, return capital plus profit to limited partners, close out the Fund.	1. E7.1: Evaluate exit opportunities	Accredited Entity; Manager
	2. E7.2: Negotiate sales transactions	Accredited Entity; Manager
	3. E7.3: Execute Exit and Distribute Proceeds	Manager; General Partner
	4. E7.4: Liquidate the GFCR Fund after all Portfolio Companies have been fully disposed.	General Partner

Co-financing

In addition to the GCF Proceeds, the Accredited Entity expects to raise the remaining \$375 million of co-financing from various third-party investors (each, a “**Co-financier**” and the amounts raised, the “**Co-financing**”).

The Accredited Entity will lead the fundraising efforts for the GFCR Fund. Although the Accredited Entity expects to do some light pre-marketing in advance, it is anticipated that the Accredited Entity would not commence fundraising efforts in earnest until

after the Funding Proposal receives GCF Board approval. Accordingly, it is expected that the initial closing of the GFCR Fund will occur with the GCF commitment only. The Accredited Entity anticipates that there would be a series of additional closings with third-party investors after the GFCR's initial closing that would take place up to fifteen months after closing on the GCF's anchor commitment, subject to an extension for up to an additional six months.

The Accredited Entity intends to focus on four broad groups that it believes are aligned with the GFCR Funds' goals:

1. U.S. foundations and endowments;
2. European institutional investors;
3. High-net worth individuals from developed and developing countries; and
4. Public and Private Finance institutions and DFIs

B.5. Justification for GCF funding request (max. 1000 words, approximately 2 pages)

Explain why the project/programme requires GCF funding, i.e. Why is the project/programme not currently being financed by public and/or private sector? Which market failure is being addressed with GCF funding? Are there any other domestic or international sources of financing?

Explain why the proposed financial instruments were selected in light of the proposed activities and the overall financing package. i.e. What is the coherence between activities financed by grants and those financed by reimbursable funds? How were co-financing amounts and prices determined? How does the concessionality of the GCF financing compare to that of the co-financing? If applicable, provide a short market read on the prevailing of the pricing and/or financial markets for similar projects/programmes.

Justify why the level of concessionality of the GCF financial instrument(s) is the minimum required to make the investment viable. Additionally, how does the financial structure and the proposed pricing fit with the concept of minimum concessionality? Who benefits from concessionality?

In your answer, please consider the risk sharing structure between the public and private sectors, the barriers to investment and the indebtedness of the recipient. Please reference relevant annexes, such as the feasibility study, economic analysis or financial analysis when appropriate.

Investor demand for sustainable investments is on the rise, as shown by the growing supply of thematic financial products and increasing investor (and asset manager) focus on ESG- and impact-related investments. A study from Credit Suisse and Responsible Investor shows that over a third of large institutional investors see Blue Economy as one of the most important sustainable investment topics in 2020, yet it remains one of the least invested themes across impact investors (even decreasing by 11% over the period 2013-17)⁵⁵ due to the lack of investable solutions.

The co-financing provided by the GCF will enable the GFCR Investment Window to create a catalytic instrument that provides the opportunity to move away from the "business as usual" scenario that has hindered access to finance for coral reef rescue.

GCF financing tackles 4 main constraints that public and private investors alone cannot tackle:

- i. **Scale:** the GCF can provide critical catalytic capital to de-risk the fund structure and mobilise additional capital to bring the GFCR to a significant size that will enable it to (i) target several priority reefs at once and (ii) deliver substantial impact in terms of adaptation and systemic change by adopting a systems approach and investing in several critical sectors. This scale will enable the participation of private investors by aggregating projects, providing monitoring and reporting and overall lowering transaction costs for individual investors who want to participate in the blue economy;

⁵⁵ Sustainable Ocean For All, OECD, 2020

- ii. **Signalling:** the support of the GCF will demonstrate the commitment to grow a pipeline of investable opportunities in the coral reef space, attracting more private investors to the GFCR;
- iii. **Scope:** a significant portion of de-risking capital in the GFCR structure will enable it to focus on more early-stage assets with nascent business models – preliminary pipeline scoping indicates this is the case for most impactful projects;
- iv. **Scarcity:** there are still limited public and development resources directed at adaptation and resilience. Supporting the first adaptation fund for coral reefs of this size will serve to increase financial flows for these important climate goals.

Several structures across the blended finance universe were analysed and consultations with potential investors carried out to determine the target 25 percent contribution (see Annex 7 on stakeholder engagement and Annex 22 on blended finance structures with subordinate tranches of up to 45%).

B.6. Exit strategy and sustainability (max. 500 words, approximately 1 page)

Explain how the project/programme sustainability (financial, institutional, social, gender equality, environmental) will be ensured in the long run after project closure, including how the project's results and benefits will be sustained.

Include information pertaining to the longer-term ownership, project/programme exit strategy, operations and maintenance of investments (e.g. key infrastructure, assets, contractual arrangements). In case of private sector, please describe the GCF's financial exit strategy through IPOs, trade sales, etc.

Provide information on additional actions to be undertaken by public and private sector or civil society as a consequence of the project/programme implementation for scaling up and continuing best practices.

The Investment Window will seek to enhance the environmental, social and economic resilience of coral-dependent communities. This will mean it will invest in bankable businesses and projects that restore or indirectly halt the degradation of corals by reducing or eliminating local stressors. These business and projects are expected to live beyond the lifetime of the GFCR Fund. As described elsewhere in this Funding Proposal, it is expected that the GFCR Fund's underlying investments will ultimately be sold to third-parties for cash proceeds, which are then distributed by the GFCR Fund to its limited partners. The GFCR Fund will be liquidated (and the programme will be completed) once the final investment is disposed of, and all remaining proceeds are distributed to the limited partners and any remaining liabilities are finally resolved.

C. FINANCING INFORMATION						
C.1. Total financing						
(a) Requested GCF funding (i + ii + iii + iv + v + vi + vii)		Total amount			Currency	
		125			million USD (\$)	
GCF financial instrument		Amount	Tenor	Grace period	Pricing	
(i)	Senior loans	Enter amount	Enter years	Enter years	Enter %	
(ii)	Subordinated loans	Enter amount	Enter years	Enter years	Enter %	
(iii)	Equity	125	15		As set forth in the Term Sheet	
(iv)	Guarantees	Enter amount	Enter years			
(v)	Reimbursable grants	Enter amount				
(vi)	Grants	Enter amount				
(vii)	Results-based payments	Enter amount				
(b) Co-financing information		Total amount			Currency	
		375			million USD (\$)	
Name of institution		Financial instrument	Amount	Currency	Tenor & grace	Seniority
Senior Investors		Equity	375	million USD (\$)	Enter 15 years	<u>6-8%</u>
GP Commitment		<u>Equity</u>	1% of total commitments	million USD (\$)	<u>15</u> years Enter years	<u>6-8%</u>
Click here to enter text.		Options	Enter amount	Options	Enter years Enter years	Options
Click here to enter text.		Options	Enter amount	Options	Enter years Enter years	Options
(c) Total financing (c) = (a)+(b)		Amount			Currency	
		500			million USD (\$)	
(d) Other financing arrangements and contributions (max. 250 words, approximately 0.5 page)		<p>Please explain if any of the financing parties including the AE would benefit from any type of guarantee (e.g. sovereign guarantee, MIGA guarantee).</p> <p>Please also explain other contributions such as in-kind contributions including tax exemptions and contributions of assets.</p> <p>Please also include parallel financing associated with this project or programme.</p> <p>An affiliate of the Accredited Entity will make a capital commitment to the GFCR Fund in an amount equal to 1% of total commitments, which will be funded pro rata as and when the General Partner calls capital from the limited partners in the GFCR Fund.</p> <p>The Accredited Entity will lead the fundraising efforts for the GFCR Fund. Although the Accredited Entity expects to do some light pre-marketing in advance, it is anticipated that the Accredited Entity would not commence fundraising efforts in earnest until after the GFCR Funding Proposal receives GCF Board approval. Accordingly, it is expected that the initial closing of the GFCR Fund will occur with the GCF commitment only. The Accredited Entity anticipates that there would be a series of additional closings with third-party investors after the GFCR's initial closing that would take place up to fifteen months after closing on the GCF's anchor commitment.</p>				

	<p>The Accredited Entity intends to focus on four broad groups that it believes are aligned with the GFCR Funds' goals:</p> <ol style="list-style-type: none"> 1. U.S. foundations and endowments; 2. European institutional investors; 3. High-net worth individuals from developed and developing countries; and 4. Public and Private Finance institutions and DFIs
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C.2. Financing by component

Please provide an estimate of the total cost per component and output as outlined in section B.3. above and disaggregate by source of financing. More than one co-financing institution can fund a single component or output. Provide the summarised cost estimates in the table below and the detailed budget plan as annex 4.

Component	Output	Indicative cost million USD (\$)	GCF financing		Co-financing		
			Amount million USD (\$)	Financial Instrument	Amount million USD (\$)	Financial Instrument	Name of Institutions
Investment into the GFCR	Investments to enhance resiliency of coral reefs and populations that depend on them	\$500	\$125	Equity	\$375 + 1% of total commitments	Equity	Private Investors + GP commitment (1%) Click here to enter text.
	Click here to enter text.	Enter amount	Enter amount	Choose an item.	Enter amount	Choose an item.	Click here to enter text.
Indicative total cost (USD)		\$500 + 1% GP commitment	\$125M		\$375M + 1% GP commitment		

Given that the GFCR Fund is an investment fund rather than a project it is not possible to specify the funding by Component.

This table should match the one presented in the term sheet and be consistent with information presented in other annexes including the detailed budget plan and implementation timetable.

In case of a multi-country/region programme, specify indicative requested GCF funding amount for each country in annex 17, if available.

C.3 Capacity building and technology development/transfer (max. 250 words, approximately 0.5 page)

C.3.1 Does GCF funding finance capacity building activities?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
C.3.2. Does GCF funding finance technology development/transfer?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

If the project/programme is expected to support capacity building and technology development/transfer, please provide a brief description of these activities and quantify the total requested GCF funding amount for these activities, to the extent possible.

In some cases, the GFCR Fund will invest in companies that operate and have developed technologies in developed countries, and the GFCR Fund's investment proceeds will be used to deploy such technologies in the target countries. Investments will ensure technologies are deployed in target countries and implemented by local communities.

D. EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA

This section refers to the performance of the project/programme against the investment criteria as set out in the GCF's [Initial Investment Framework](#).

D.1. Impact potential (max. 500 words, approximately 1 page)

Describe the potential of the project/programme to contribute to the achievement of the GFCR Fund's objectives and result areas. As applicable, describe the envisaged project/programme impact for mitigation and/or adaptation. Provide the impact for mitigation by elaborating on how the project/programme contributes to low-emission sustainable development pathways. Provide the impact for adaptation by elaborating on how the project/programme contributes to increased climate-resilient sustainable development. Calculations should be provided as an annex. This should be consistent with section E.2 reporting GCF's core indicators.

- **Beneficiaries:** the GFCR Investment Window is expected to directly benefit those individuals engaged in reef-first businesses and livelihoods, and indirectly benefit the coastal communities that depend on the targeted reef. The number of expected direct beneficiaries are 12,737 –people who will have new jobs created by projects supported GFCR.
- **Increased resilience of the coral reef biome:** The GFCR Investment Window will seek to invest in the world's most resilient reefs because this gives reefs, globally the best chance of survival. Healthy reefs will, in turn increase the health and resilience of related ecosystem services (such as fish stocks and disaster-risk reduction/ buffers to coastal erosion).
- **Resilient and ecologically-sustainable livelihoods:** healthy reefs and coastal ecosystems are the bedrock for sustainable livelihoods for reef-dependent communities. The GFCR Investment Window is expected to have significant co-benefits in the following economic activities: eco-tourism, sustainable fishing and aquaculture, small- scale agriculture, income generation from reef restoration, and waste management.
- **Financial returns for the private sector and economic engines in target countries:** The GFCR Investment Window will invest in businesses which will prioritize the conservation and regeneration of coral reefs, which is estimated to have significant economic returns generated by three sectors, mainly: tourism, coastal development and commercial fisheries. A quantitative analysis by ICRI and UNEP found that healthy reefs can deliver additional economic benefits amounting to over \$30 billion in the Mesoamerican Reef and in the Coral Triangle, between 2017 and 2030.⁵⁶

D.2. Paradigm shift potential (max. 500 words, approximately 1 page)

Describe the degree to which the proposed activity can catalyze impact beyond a one-off project or programme investment. Describe the following, if applicable:

- *Potential for scaling up and replication*
- *Potential for knowledge sharing and learning*
- *Contribution to the creation of an enabling environment*
- *Contribution to the regulatory framework and policies*
- *Overall contribution to climate-resilient development pathways consistent with relevant national climate change adaptation strategies and plans*

This programme is the first GCF solution to unlock critical new sources of funds and increase long-term flows of innovative and blended finance to eliminate the current 'coral reef funding gap' and rescue coral reefs in the face of accelerating climate change and – in so doing – secure the basis for survival and adaptation of vulnerable reef-dependent communities. It provides a paradigm shift firstly by enabling private and public institutional investors to participate in coral reef conservation activities. Secondly, it also addresses long-term sustainability issues by creating not only environmental, but also social and economic resilience by developing sustainable local economies, creating alternative livelihoods and embedding adaptive technologies and techniques that will outlive the programme's duration. Finally, the GFCR Investment Window programme sets a blueprint for other conservation efforts by seeking to address the threat of climate change by adopting a science-based and systems approach – in this case targeting the most resilient reefs and focusing on addressing the drivers of degradation.

D.3. Sustainable development (max. 500 words, approximately 1 page)

⁵⁶ UN Environment, ISU, ICRI and Trucost. (2018). The Coral Reef Economy: The business case for investment in the protection, preservation and enhancement of coral reef health, p. 36. Available at: https://wedocs.unep.org/bitstream/handle/20.500.11822/26694/Coral_Reef_Economy.pdf?sequence=1&isAllowed=y

Describe the wider benefits and priorities of the project/programme in relation to the Sustainable Development Goals and provide an estimation of the impact potential in terms of:

- Environmental co-benefits
- Social co-benefits including health impacts
- Economic co-benefits
- Gender-sensitive development impact

Ecosystem services provided by coral reefs and associated ecosystems are especially vital for achieving nature-dependent United Nations Sustainable Development Goals (SDGs), including SDG 14 ‘Life Below Water’. In total, coral reef initiatives contribute directly to 13 SDGs through entry points that include coral reef tourism, food security and nutrition, shoreline protection, and human health and wellbeing. This is illustrated in Figure 8 below, which shows how coral reef-centred interventions contribute to the 2030 Agenda and multiple SDGs.

Figure 11: SDGs tackled through the GFCR



Social co-benefits:

- Local skills and knowledge – Development, implementation and running of portfolio companies will leverage existing local capabilities, including indigenous knowledge.
- Capacity building – Capacity building assistance in priority countries.
- Enhanced empowerment and stewardship for coastal communities – Local communities are supported to independently manage the sustainability coastal and ocean resources as collectives.
- Food security – Increased – or better managed - volumes of production from aquatic food industries – and a greater diversity of industries – will improve food security and resilience of the food sector to climate change.
- Improved health and reduced disease prevalence from sustainable infrastructure limiting exposure to pollution and waste and improved nutrition from enhanced food security and increased protein availability.

Environmental co-benefits:

- Coral reef ecosystem integrity and resilience – Restoration activities will directly address existing degradation and enhance the capacity of coral reef ecosystems to withstand local stressors and bleaching events, thereby limiting the extent of future degradation.
- Restored fish stocks and long-term protection of fishing industry– Reduced pressure on fisheries due to increase in mariculture and aquaculture production.
- Reduction in ocean contamination from land-based and ocean-based pollution.
- Enhanced Marine Protected Areas – Expansion and/or improved management of MPAs.

Economic co-benefits:

- Sustainable livelihoods and local economic growth – Expansion in local businesses will generate employment creation opportunities. Multiplier effects from additional spending within the local economy will drive local economic growth.
- Access to capital markets – Investment in local businesses may enhance foreign investor familiarity and comfort with operating in the region, thereby improving access to capital for adjacent businesses.

Gender-sensitive development impact:

- Empowerment from active inclusion of women in consultation processes and positions of leadership, explicit consideration of gender disaggregated-needs in project design, capacity building of women and girls to enable greater roles in environmental stewardship, and greater financial independence.
- Formal employment and improved livelihoods for women and girls, improved working conditions and greater gender parity in pay, and additional incomes that increase the diversity of household incomes, thereby reducing dependence on individual livelihood activities and enhancing financial resilience which is then less susceptible to periodic shocks.
- Improved capacity of communities to adapt to and cope with shocks to reduce safety risks to women and girls and gender violence.

D.4. Needs of recipient (max. 500 words, approximately 1 page)

Describe the scale and intensity of vulnerability of the country and beneficiary groups and elaborate how the project/programme addresses the issue (e.g. the level of exposure to climate risks for beneficiary country and groups, overall income level, etc.). Describe how the project/programme addresses the following needs:

- *Vulnerability of the country and/or specific vulnerable groups, including gender aspects (for adaptation only)*
- *Economic and social development level of the country and the affected population*
- *Absence of alternative sources of financing (e.g. fiscal or balance of payments gap that prevents government from addressing the needs of the country; and lack of depth and history in the local capital market)*
- *Need for strengthening institutions and implementation capacity*

As explained in section B1 above, scale and intensity of climatic and biodiversity vulnerabilities vary by countries and drivers of degradation. However, the impacts related to the death of corals remain the same: decrease in food supply, shoreline vulnerability and decrease in tourism inflows being the main consequences. The most vulnerable communities are therefore population living on the coast lines in proximity to reefs and more precisely fishing communities.

Many of the 32 countries under the Fund's scope are developing countries. On top of bio-climatic vulnerabilities, the national economic and social environment can further increase the vulnerabilities of coral-dependent communities related to the death of corals. Populations are more vulnerable to extreme events and to the degradation of reef and local governments don't have the means to address the needs of the country through large-scale programs. These barriers have been further assessed in Annex 24.

These vulnerabilities translate into investments in coral positive businesses and finance instruments which are not occurring at the desired levels. The Fund, thanks to its blended finance vehicle comprising GCF junior tranche, will have the capacity to invest and scale up these businesses. In return, the scale up and resilience of the investee will contribute directly and indirectly to the sustainable prosperity of local reef-dependent livelihoods.

D.5. Country ownership (max. 500 words, approximately 1 page)

Please describe how the beneficiary country takes ownership of and implements the funded project/programme. Describe the following:

- *Existing national climate strategy*
- *Existing GCF country programme*
- *Alignment with existing policies such as NDCs, NAMAs, and NAPs*
- *Capacity of Accredited Entities or Executing Entities to deliver*
- *Role of National Designated Authority*
- *Engagement with civil society organizations and other relevant stakeholders, including indigenous peoples, women and other vulnerable groups*

The project will promote open engagement with national and local government as well as select private sector entities and philanthropies to implement effective management of land/seascapes that integrate climate change adaptation, climate resilience planning and nature-based solutions to enhance the resilience of coral reef ecosystems in select SIDS and LDCs. This project will be implemented in full alignment with national development plans and global commitments including: Nationally Determined Contributions, National Adaptation Plans, post-2020 CBD Global Biodiversity Framework, the 2030 Agenda for Sustainable Development, the UN Decade of Action for SDGs, and the UN Resolution on 'Sustainable Coral Reef Management'.

Country's will be highly involved in site selection for project implementation with clear alignment on assisting vulnerable communities.

On April 28th, 2021, Pegasus sent the first batch of official NOL request letters to 12 highly impacted countries that have been identified as high priority for the Investment Window: Bahamas, Belize, Fiji, Guatemala, Honduras, Indonesia, Kenya, Maldives, Mexico, Philippines, Solomon Island and Tanzania. A brief power point presentation on the GFCR initiative was included along with the NOL request letters. On May 10, Pegasus sent formal NOL requests to the remaining target countries. Pegasus and its consortium partners have been engaged in regular dialogue with NDAs and country representatives since then and has provided them with the funding proposal. The final version of the funding proposal submitted to the GCF for publication will also be circulated to the NDAs. Lastly, the NDAs have been directed to the ESMS disclosures on Pegasus' website.

The GFCR approached the following countries for involvement in the programme:

- Africa: Comoros; Kenya; Madagascar; Mozambique; Tanzania; Seychelles
- Asia-Pacific: Cambodia; Fiji; Indonesia; Malaysia; Maldives; Philippines; Solomon Islands; Sri Lanka; Thailand, Timor Leste; Vietnam
- Latin America and the Caribbean: Bahamas; Belize; Brazil; Colombia; Costa Rica; Dominican Republic; Ecuador; Guatemala; Honduras; Jamaica; Mexico; Panama
- Middle East: Egypt; Jordan; Saudi Arabia

As of October 1, 2021, we received 17 NOLs from Brazil, Bahamas, Belize, Colombia, Comoros, Ecuador, Fiji, Guatemala, Indonesia, Jamaica, Jordan, Mexico, Mozambique, Panama, Philippines, Seychelles and Sri Lanka. Pegasus is in advanced discussions with several other countries, including (without limitation) Kenya, Malaysia, Maldives, Saudi Arabia, Tanzania and Vietnam. These countries, amongst others, all expressed significant interest in the GFCR but haven't been able to complete their internal sign-off processes due to COVID-19 and other reasons. Additional countries may be added to the programme after initial Board approval, provided they submit an NOL and the addition is approved by the Board.

In addition, following a global RFI, launched by UNDP and CFA in September 2020, several countries' governments including Philippines, Indonesia, Maldives, and Kenya have reached out to UNDP to express high level of interest and better understand the opportunities presented by the GFCR. In the case of Fiji, there is already a joint programme underway (UNDP, UNCDF, UNEP) aimed at creating an enabling financial environment and build capacity to mobilize private and public investment capital for initiatives that have a positive impact on Fijian coral reefs and the communities that rely on them. The GFCR and the Joint SDG Fund are both contributors to this joint programme. Further, the Accredited Entity has successfully gathered 42 NOLs in a separate process for the Sub-National Climate Fund GCF programme.

D.6. Efficiency and effectiveness (max. 500 words, approximately 1 page)

Describe how the financial structure is adequate and reasonable in order to achieve the proposal's objectives, including addressing existing bottlenecks and/or barriers, and providing the minimum concessionality to ensure the project is viable without crowding out private and other public investments. Refer to section B.5 on the justification of GCF funding requested as necessary.

Please describe the efficiency and effectiveness of the proposed project/programme, taking into account the total financing and mitigation/adaptation impact the project/programme aims to achieve, and explain how this compares to an appropriate benchmark.

Please specify the expected economic rate of return based on a comparison of the scenarios with and without the project/programme.

Please specify the expected financial rate of return with and without the GFCR Fund's support to illustrate the need for GCF funding to illustrate overall cost effectiveness.

Please explain how best available technologies and practices have been considered and applied. If applicable, specify the innovations/modifications/adjustments that are made based on industry best practices.

GCF capital has an expected mobilisation ratio of 1:3 at the fund level (investment window) – aligned with other off balance sheet blended finance vehicles of a similar size and considered a “catalytic” use of funding by groups like the Blended Finance Taskforce

There is further mobilisation expected at the portfolio company level where the leverage ratio is just over 1:3 (i.e. every dollar of GFCR capital deployed will mobilise an additional \$2.4 of debt or equity). The GFCR aims to adhere to the OECD blended finance principles of additionality and minimum concessionality to ensure the viability of the Fund while mobilising private capital rather than crowding out private investments. A more detailed explanation on the expected mobilisation ratios at the portfolio level (i.e. the measure of how catalytic the GCF capital will be) is laid out below calculated by looking at the mobilisation of equity and debt for different types of investments:

a. **Equity-only leveraging effect is 1:0.3 @ 90% of the Fund**

- At portfolio company level, the GFCR will largely take control equity positions on the target investments. In many cases, however, GFCR expects to have additional equity co-investors.
- In a conservative scenario, each \$1 of equity invested in a company, is expected to generate on average \$0.33 of additional equity
- Taking control equity positions will allow to Fund to most effectively implement strategic initiatives, maintain rigorous E&S standards and support companies to become blueprints of sustainability to ensure GFCR outcomes are as the core of the investee strategy. This will help develop the market to mainstream nature as an “asset class” – with outsized (though indirect) mobilisation effects

b. **Debt-only leveraging effect is 1:1.5**

- i. Taking a conservative approach, Pegasus believes that, given its track record (see SCF approach), the average investee balance sheet could be made of 60% debt and 40% equity
- ii. The debt is expected to be provided by additional third parties like local or international banks

c. **VC leveraging effect is 1:3 @ ~10% of the Fund**

- i. It is expected that approximately 10% of the portfolio may be dedicated to VC investments and/or convertible debt / mezzanine positions. Given the nature of VC investment, the assumption is that the fund will hold on average 25% of the portfolio company, granting a control over the decisions of the investee while giving room for additional equity funding rounds
- ii. The mobilisation ratio of these types of investments is 1:3 (i.e. for every dollar in the portfolio company, an additional \$3 of equity will be invested)
- iii. Dedicating part of the fund to venture capital investments allows the Fund to participate to the effective scale up of disruptive technologies which will be sustainability game changers especially in the sustainable ocean production industries into which the Fund intends to invest

d. **Aggregating 90% equity (with a 1:0.3 mobilisation ratio); 40% debt (with a 1:1.5 mobilisation ratio) and 10% VC or other instruments (with a 1:3 mobilisation ratio) the projected leverage downstream in the portfolio companies is around 1:2.4**

b. Note that the GFCR mobilisation approach takes into account the following:

- a. The GFCR is a pioneer blended finance adaptation fund – the first of its kind with this level of ambition on investment in SDG 14 for critical reef and coastal ecosystems and the livelihoods upon which those ecosystems depend
- b. The GFCR hopes to become a blueprint for other vehicles – helping standardise this approach to reduce transaction costs

In other words, the GFCR should be seen as a flagship demonstration fund: its success intends to mainstream the optimal financial structure for a biodiversity vehicle which combines public, private and philanthropic capital

- c. Through the support of the GW (pipeline incubation, capacity building, dialogue with policy makers, technical assistance, etc.) and direct investments of the IW into promising ventures and projects, the GFCR expects to set up solid foundations to stimulate a pipeline of investible sustainable projects and de-risk the business environment for other funds to follow

- d. This is expected to also have a catalytic effect that will be more difficult to directly attribute to the Fund but is at the heart of the GFCR's theory of change: two of the GFCR outputs ("Increased innovation to support resilience of coral reefs and communities reliant on coral reefs" and "Increased market share of sustainable businesses in reef-dependent areas" – see figure 9 of section B.2) are directly related to the investment work described above.
- e. Investments by the GW and the IW will both strengthen the enabling environment for investees to raise additional capital (either debt and equity) and thus provide a leveraging effect seeking to optimize the efficiency of funds raised: each of the individual companies in which the Fund invests will have its own capital structure, with the Fund typically providing the equity portion (potentially with co-investors at the company level as well) and third-parties providing the debt.

E. LOGICAL FRAMEWORK		
<p><i>This section refers to the project/programme's logical framework in accordance with the GCF's Performance Measurement Frameworks under the Results Management Framework to which the project/programme contributes as a whole, including in respect of any co-financing.</i></p>		
E.1. Paradigm shift objectives		
<p><i>Please select the appropriated expected result. For cross-cutting proposals, tick both.</i></p> <p><input type="checkbox"/> Shift to low-emission sustainable development pathways</p> <p><input checked="" type="checkbox"/> Increased climate resilient sustainable development</p>		
E.2. Core indicator targets		
<p><i>Provide specific numerical values for the GCF core indicators to be achieved by the project/programme. Methodologies for the calculations should be provided. This should be consistent with the information provided in section A.</i></p>		
E.2.1. Expected tonnes of carbon dioxide equivalent (t CO ₂ eq) to be reduced or avoided (mitigation and cross-cutting only)	Annual	Click here to enter text. t CO ₂ eq
	Lifetime	Click here to enter text. t CO ₂ eq
E.2.2. Estimated cost per t CO ₂ eq, defined as total investment cost / expected lifetime emission reductions (mitigation and cross-cutting only)	(a) Total project financing	<u>USD 500m</u> Choose an item.
	(b) Requested GCF amount	<u>USD 125m</u> Choose an item.
	(c) Expected lifetime emission reductions	<u>NA</u> t CO ₂ eq
	(d) Estimated cost per t CO₂eq (d = a / c)	<u>NA</u> Choose an item. / t CO ₂ eq
	(e) Estimated GCF cost per t CO₂eq removed (e = b / c)	<u>NA</u> Choose an item. / t CO ₂ eq
E.2.3. Expected volume of finance to be leveraged by the proposed project/programme as a result of the GCF Fund's financing, disaggregated by public and private sources (mitigation and cross-cutting only)	(f) Total finance leveraged	<u>375m +1% GP commitment</u> USD
	(g) Public source co-financed	<u>125m</u>
	(h) Private source finance leveraged	<u>375m +1% GP commitment</u>
	(i) Total Leverage ratio (i = f / b)	<u> 1:3 </u>
	(j) Public source co-financing ratio (j = g / b)	<u>1:1</u>
	(k) Private source leverage ratio (k = h / b)	<u>1:3</u>
	E.2.4. Expected total number of direct and indirect beneficiaries, (disaggregated by sex)	Direct
Indirect		35,236,406 50% of female
<i>For a multi-country proposal, indicate the aggregate amount here and provide the data per country in annex 17.</i>		
E.2.5. Number of beneficiaries relative to total population (disaggregated by sex)	Direct	See Annex 17
	Indirect	See Annex 17
	<i>For a multi-country proposal, leave blank and provide the data per country in annex 17.</i>	

E.3. Fund-level impacts

Select the appropriate impact(s) to be reported for the project/programme. Select key result areas and corresponding indicators from GCF RMF and PMFs as appropriate. Note that more than one indicator may be selected per expected impact result. The result areas indicated in this section should match those selected in section A.4 above. Add rows as needed.

Expected Results	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	
A1.0 Increased resilience and enhanced livelihoods of the most vulnerable people, communities and regions	A1.2 Number of males and females benefiting from the adoption of diversified, climate resilient livelihood options (including fisheries, agriculture, tourism, etc.)	Employment data to be provided by investees. Templates and supporting material will be provided to facilitate data collection.	0	3,800 direct jobs created in sustainable businesses ⁵⁷	12,700 direct jobs are created in sustainable businesses ⁵⁸	Investees are not exclusively capital-intensive businesses
A4.0 Improved resilience of ecosystems and ecosystem services	A4.1 Coverage/scale of ecosystems protected and strengthened in response to climate variability and change	Data to be provided by investees. Templates and supporting material will be provided to facilitate data collection. 3rd party assessment when deemed necessary	Globally, approximately 455,000ha of coral reefs are managed so as to prevent the removal of functional animal and plant groups (Mora et al., 2006; UNEP) ⁵⁹	11,650ha will have significant increase in resilience in response to reductions in multiple stressors	29,000ha by end of Fund period will have significant increase in resilience in response to reductions in multiple stressors ⁶⁰	Supportive policy environment for enforcement. There are economically viable private sector avenues that reduce pressures on reefs
A4.0 Improved resilience of ecosystems and ecosystem services	A4.2 Value (US\$) of ecosystem services generated or protected in response to climate change	Annual Economic valuation study	Total economic value of ecosystem services implied by target area for resilient coral reefs is \$10bn ⁶¹	Identify portfolio of investments to enable maintenance of \$10bn in coral reef ecosystem services	\$10bn of coral reef ecosystem services maintained	Supportive policy environment for enforcement. There are economically viable private sector avenues that reduce pressures on reefs

E.4. Fund-level outcomes

Select the appropriate outcome(s) to be reported for the project/programme. Select key expected outcomes and corresponding indicators from GCF RMF and PMFs as appropriate. Note that more than one indicator may be selected per expected outcome. Add rows as needed.

Expected Outcomes	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	

⁵⁷ Mid-term targets assume that 30% of the fund is spent by the mid-term.

⁵⁸ See Annex 23 for methodology

⁵⁹ Mora et al. 2006: 1.6% of coral reefs are managed so as to prevent the removal of functional animal and plant groups. UNEP: The world's total reef area is 284,803 km². Sources: https://www.researchgate.net/publication/6990589_Coral_Reefs_and_the_Global_Network_of_Marine_Protected_Areas and http://coral.unep.ch/Coral_Reefs.html

⁶⁰ See Annex 23 for detailed methodology

⁶¹ Target area is 29,000 ha of coral reef ecosystems protected (see A4.1). Assumed Total Economic Value is assumed to be \$352.24k/ha/year. Source: De Groot et al. 2017 <https://doi.org/10.1016/j.ecoser.2012.07.005>

<p>A7.0 Strengthened adaptive capacity and reduced exposure to climate risks</p>	<p><i>A7.1 Use by vulnerable households, communities, businesses and public-sector services of Fund-supported tools instruments, strategies and activities to respond to climate change and variability</i></p>	<p>Survey of investee employees. Templates and supporting material will be provided to facilitate data collection. support from 3rd party assessment (external consultants) where needed</p>	<p>To be determined during investment due diligence</p>	<p>Increase in proportion of household revenue of fund beneficiaries derived from sustainable activities</p>	<p>Majority of revenue in households of fund beneficiaries is derived from sustainable activities</p>	<p>Investees pay fair and living wages to employees</p>
<p>A8.0 Strengthened awareness of climate threats and risk-reduction processes</p>	<p><i>A8.1 Number of males and females made aware of climate threats and related appropriate responses</i></p>	<p>Data from investees regarding engagement with local communities and awareness-raising activities related to climate change. 3rd party (external consultants) where needed</p>	<p>0</p>	<p>At least one awareness-related activity or campaign raising awareness of climate change and adaptation undertaken by investees</p>	<p>Active involvement of the investee communities in adaptation and safeguarding of the surrounding environment</p>	<p>Investees have the knowledge and capacity to meaningfully contribute to community-wide awareness and understandings of climate change</p>

E.5. Project/programme performance indicators

The performance indicators for progress reporting during implementation should seek to measure pre-existing conditions, progress and results at the most relevant level for ease of GCF monitoring and AE reporting. Add rows as needed.

Expected Results	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term	Final	
1. Increased production of food from sustainable fisheries, mariculture, aquaculture and in reef-connected communities.	Change in production of sustainable fishery, mariculture and aquaculture businesses	Data from investees on production capacity, employees and T sold; independent studies; support from 3 rd party assessment (external consultants) where needed	Global sustainable seafood production in 2018 was approximately 25m T ⁶² . Country or region-specific data to be determined during investment due diligence and market study where investment will be established	By mid-term, a full portfolio of private sector companies producing sustainable seafood is identified.	Increase in production capacity and production for all sustainable fisheries, mariculture and aquaculture investees	The investment climate is open in target countries Fisheries can be sufficiently incentivized to transition to sustainable measures
2. Increased protection and restoration coral reef ecosystems	Coverage of reefs ecosystems protected and strengthened in response to climate variability and change through protection, restoration, coral farming and reduction in drivers of degradation	Data to be provided by investees. Templates and supporting material will be provided to facilitate data collection. 3 rd party assessment (external consultants) where needed	Approximately 455,000ha of coral reefs are managed so as to prevent the removal of functional animal and plant groups (Mora et al., 2006; UNEP) ⁶³	Actively contribute to fund-level targets of 8,700ha through protection, restoration, coral farming and reduction in drivers of degradation	Actively contribute to fund level targets of 29,000ha through protection, restoration, coral farming and reduction in drivers of degradation	Supportive policy environment for enforcement of sustainable practices. There are clear legal and regulatory signals for the maintenance of reef integrity
3. Growth in jobs and the local economy	Number of direct jobs created in sustainable businesses	Employment data to be provided by investees. Templates and supporting material will be provided to facilitate data collection.	0	3,800 direct jobs created in sustainable businesses ⁶⁴	12,700 direct jobs are created in sustainable businesses ⁶⁵	Investees are not exclusively capital-intensive businesses
4. Improved water quality in reef ecosystems	Extent of pollution in reef areas measured on a scale of threat to the coral reef biome	Processing and treatment data to be provided by investees. Templates and supporting material will be provided to facilitate data collection. 3 rd party assessment (external consultants) where needed	To be determined during investment due diligence and market study where investment will be established	Significant improvement in pollution avoided in all reefs where infrastructure investments are made measured against cubic metres of water treated; T of plastic collected / recycled; T of agricultural nutrient runoff avoided	Pollution reduced to levels such that biome no longer threatened by local pollution	Infrastructure projects not only involve increased capacity but are accompanied by ongoing maintenance regimes
5. Increased innovation to support	Adoption of technology and innovations to	Data to be provided by investees. Templates and supporting material	Technological readiness to be determined during	Transfer of technology in the target geography	Full adoption by local stakeholders of	Transferred technologies are appropriate

⁶² Globally, 178m tonnes of seafood was produced from fisheries and aquaculture (FAO 2018). 14% of seafood production is produced sustainably (State of Sustainability Initiative, 2016). Sources: <http://www.fao.org/state-of-fisheries-aquaculture> and <https://www.iisd.org/publications/state-sustainability-initiatives-review-standards-and-blue-economy>

⁶³ Sources: https://www.researchgate.net/publication/6990589_Coral_Reefs_and_the_Global_Network_of_Marine_Protected_Areas and http://coral.unep.ch/Coral_Reefs.html

⁶⁴ Mid-term targets assume that 30% of the fund is spent by the mid-term.

⁶⁵ See Annex 23 for methodology

resilience of coral reefs and communities reliant on coral reefs	enhance resilience within coral-reef dependent communities	will be provided to facilitate data collection. 3rd party assessment (external consultants) where needed	investment due diligence	Innovations developed in local communities achieve commercial viability	technologies and innovations related to restoration and protection of coral reefs	given the needs, skills and socio-cultural contexts of the target community
6. Increased market share of sustainable businesses in reef-dependent areas	Market share by country by type of business (ocean based production, tourism)	Sales and relevant local market data to be provided by investees. Templates and supporting material will be provided to facilitate data collection. 3rd party assessment (external consultants) where needed	Global data available: Sustainable Seafood: 14% of seafood production (State of Sustainability Initiative, 2016) Ecotourism: 5-7% of travel & tourism market (EBSCO, 2009) ⁶⁶ . Biome and community-specific data to be provided during investment pre-screening	Of total food production from the ocean in the local biome, an increased proportion is from sustainable sources Of total tourism activity in the local biome (hotels, recreation), an increased proportion is undertaken through sustainable businesses	Of total food production from the ocean in the local biome, a majority is from sustainable sources Of total tourism activity in the local biome (hotels, recreation), a majority is undertaken through sustainable businesses	There are economically viable private sector avenues that reduce pressures on reefs

E.6. Activities

All project activities should be listed here with a description and sub-activities. Significant deliverables should be reflected in the implementation timetable. Add rows as needed.

Activity	Description	Sub-activities	Deliverables
E1.1: Procure legal services to prepare underlying documentation	Accredited Entity to engage fund counsel and local counsel as needed	Negotiate engagement letters	Legal engagement letters
E1.2: Implement structure for GFCR Fund and related entities	Accredited Entity and legal service providers to work with GCF to implement fund structure	Draft and revise documents; consult with external advisors	Final structure of the GFCR Fund and related entities is established
E1.3: Draft formation documents and related Agreements for GFCR entities	Self-explanatory	Draft and revise documents	Final formation documents
E1.4: Consummate Initial Closing of the GFCR Fund with GCF as anchor investor	GCF (via GCF Reef Holdings) executes and delivers a binding subscription agreement to the GFCR Fund for a \$125mm commitment, with \$25mm of the commitment being unconditional ⁶⁷	Draft and revise documents	Initial Closing of the GFCR Fund

⁶⁶ Sources: <https://www.iisd.org/publications/state-sustainability-initiatives-review-standards-and-blue-economy> and <https://ebscosustainability.files.wordpress.com/2010/07/ecotourism.pdf>

⁶⁷ GCF's unconditional commitment at the first closing will increase to \$50mm if the GFCR Fund procures at least \$10mm of additional co-investment at the first close.

E2.1: Prepare fundraising material; evaluate GFCR Fund suitability	Materials may include overview presentations, team track record, pipeline, etc.	Draft and revise materials; potential engagement of one or more placement agents	Marketing Plan and List of Priority Investors
E2.2: Draft Private Placement Memorandum and Other Marketing Materials. Market Fund to other investors.	Self-explanatory	Draft and revise material; investor due diligence	Final Marketing Materials
E2.3: Negotiate with potential investors and close on additional commitments to the GFCR Fund	Other LPs execute and deliver binding subscription agreements to the GFCR Fund	Negotiate side letters with investors	Binding LP commitments
E3.1: Early stage sourcing	Leverage networks and the Grant Window to generate deal flow		Evolving pipeline of potential transactions
E3.2: Develop the pipeline	Initial evaluation of pipeline opportunities	Evaluate against screening criteria; determine which opportunities to pursue in further detail	Identification of a smaller subset of potential transactions on which to conduct further due diligence
E4.1: Perform Due Diligence on proposed deals	More comprehensive investigation into the potential opportunity.	Evaluate all aspects of potential investment; involve third-party experts/consultants as applicable	Identify transactions for investment by the GFCR Fund
E4.2: Prepare documentation for Investment Committee	Self-explanatory	Obtain Investment Committee approval	Investment Committee Approval to make the proposed investment
E4.3: Prepare documentation for AIFM and execute deals	Self-explanatory	Obtain AIFM approval	AIFM approval
E5.1: Provide ad-hoc support to Portfolio Companies	Oversight and support via board representation and regular meetings with management	Monitor company performance	N/A
E5.2: Perform regular evaluation of Portfolio Companies	Oversight and support via board representation and regular meetings with management	Monitor company performance	N/A
E6.1: Collect information of investees, implement verification mechanisms, implement data collection tools	Self-explanatory	Monitor company performance	N/A
E6.2: Organize annual audit of the GFCR Fund	Self-explanatory	Identify independent auditor; provide support as necessary	Annual audit report
E6.3: Report to LPs on financial results, impacts and beneficiaries	Self-explanatory	Prepare investment updates	Financial reports and qualitative updates
E7.1: Evaluate exit opportunities	Identify potential acquirors	Engage investment banking services on an as-needed basis	

E7.2: Negotiate sales transactions	Negotiate and execute purchase and sale agreement and other related documents	Engage investment banking and legal services on an as-needed basis	Negotiated exit transactions
E7.3: Execute Exit and Distribute Proceeds	N/A	Satisfy closing conditions	Consummated exit transactions and distribution of proceeds
E7.4: Liquidate the GFCR Fund after all Portfolio Companies have been fully disposed.	With assistance of legal counsel as necessary	Make liquidating distribution.	Dissolution of the GFCR Fund

E.7. Monitoring, reporting and evaluation arrangements (max. 500 words, approximately 1 page)

Besides the arrangements (e.g. annual performance reports) laid out in AMA, please give a summary of the project/programme specific arrangements for monitoring and evaluation. Please provide the types of interim and final evaluations. Describe Accredited Entity (AE) project reporting relationships, including to the NDA/Focal Point and between AE and Executing Entity (EE) as relevant, identifying reporting obligations from the EE to the AE. This should relate to the frequency of reporting on project indicators, implementation challenges and financial status.

Non-financial outputs of the fund are continuously monitored. The process is supervised by the ESMS Manager and includes the following activities:

- Data collection and performance measurement:
 - By working closely with each investee, the data required to aggregate the non-financial fund metrics are obtained directly from the investees. This will include data to support the development of country or region-specific baselines aggregated investee business plans pertaining to market share, sales, and economic activity in the sector/country. Additional data will be periodically and systematically aggregated during implementation relating to production, sales volumes and value, human resources, infrastructure capacity and volumes of waste treated, among others.
 - Templates and supporting material help facilitate the data collection. An example of this material can be found in Annex 11B – Template for Regular Investee Monitoring.
 - When appropriate and deemed necessary, external consultants may support the data collection and measurement process.
- Performance assessment and corrective actions: Based on the predefined output and outcome targets and metrics, corrective actions may be defined by engaging with the investee.
- Reporting: Output and outcome indicators are published annually. The report is made publicly available.

The performance monitoring system will be gradually developed keeping in mind the activities under each strategic pillar. During the initial years of implementation period, the focus will be on implementation of the monitoring plan to track progress towards outputs and outcomes, and evaluate the causal relationships among these levels to understand overall effectiveness of monitoring system. Periodic site visits by the Global GFCR team will further help assess intended outputs and outcomes in the real economy.

Regarding the financial reporting, typically Pegasus provides financial information to its fund limited partners on a quarterly basis along with a quarterly report that summarizes material developments at each portfolio company owned by the fund. Pegasus has established valuation processes and procedures in accordance with US GAAP and fair values for the underlying portfolio investments are done in accordance with Accounting Standards Codification (ACS) 820-10 on a semi-annual basis at June 30th and December 31st. Pegasus expects to engage a third-party valuation firm (which may also be the AIFM) to conduct the year-end valuation.

F. RISK ASSESSMENT AND MANAGEMENT

F.1. Risk factors and mitigations measures (max. 3 pages)

Please describe financial, technical, operational, macroeconomic/political, money laundering/terrorist financing (ML/TF), sanctions, prohibited practices, and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures. Insert additional rows if necessary.

For probability: High has significant probability, Medium has moderate probability, Low has negligible probability
 For impact: High has significant impact, Medium has moderate impact, Low has negligible impact
 Prohibited practices include abuse, conflict of interest, corruption, retaliation against whistleblowers or witnesses, as well as fraudulent, coercive, collusive, and obstructive practices

Selected Risk Factor 1 Investee companies may fail to deliver on projected financial or impact results

Category	Probability	Impact
Technical and operational	Medium	Medium

Description

Please describe the risk to the best of your knowledge at this point in time.

Pegasus seeks to conduct comprehensive due diligence on each potential investment, including the selection of local partners and others involved in the day-to-day management of the investee company. Nevertheless, there are any number of reasons (some within Pegasus’ or management’s control and some not) why an investment may not perform as expected.

Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

Issues identified during due diligence may prompt Pegasus to alter transaction terms or impose conditions on the investment. Pegasus has also historically sought to stage its investments in many of its companies, which typically allows it to commit less capital to an investment upfront when the risk is potentially the greatest. Pegasus also remains closely involved with its investee companies, often by majority control of the board of directors and/or regular formal and informal communication with management. Accordingly, when issues do arise at an investee company, Pegasus is apprised in real-time and often directly assists with identification and remediation of issues, including (in some instances) by dispatching Pegasus employees and/or operating/strategic advisors to the investee company.

Selected Risk Factor 2 Private investors may not consider the GFCR Fund as sufficiently attractive for investment

Category	Probability	Impact
Technical and operational	Low	Medium

Description

Please describe the risk to the best of your knowledge at this point in time.

Pegasus believes, adaptation impact funds are less well understood by investors. There could be a perception that a fund focused on coral reefs is more philanthropic than commercial.

Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

GCF’s concessional commitment provides significant downside protection for private investors. Pegasus has had early stage conversations with certain investors to test the GFCR concept at a high level, and early indications are promising. Pegasus is exploring other investment support mechanisms (e.g., third-party guarantees) to bolster the credit profile of the GFCR Fund.

Selected Risk Factor 3 ML/TF and Other Prohibited Practices		
Category	Probability	Impact
ML/FT	Low	Medium
Description		
<p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>Potential investees could engage in activities that violate GCF's Policy on Prohibited Practices.</p>		
Mitigation Measure(s)		
<p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>Pre-investment due diligence will include, among other things, extensive due diligence on operational matters of investee companies and the identity/background of key personnel (i.e., KYC). This due diligence will be supplemented by KYC requirements imposed on the Fund's Depositary under Luxembourg law.</p>		

G. GCF POLICIES AND STANDARDS

G.1. Environmental and social risk assessment (max. 750 words, approximately 1.5 pages)

Provide the environmental and social risk category assigned to the proposal as a result of screening and the rationale for assigning such category. Present also the environmental and social assessment and management instruments developed for the proposal (for example, ESIA, ESMP, ESMF, ESMS, environmental and social audits, etc.). Provide a summary of the main outcomes of these instruments. Present the key environmental and social risks and impacts and the measures on how the project/programme will avoid, minimize and mitigate negative impacts at each stage (e.g. preparation, implementation and operation), in accordance with GCF's ESS standards. If the proposed project or programme involves investments through financial intermediations, describe the due diligence and management plans by the Executing Entities (EEs) and the oversight and supervision arrangements. Describe the capacity of the EEs to implement the ESMP and ESMF and arrangements for compliance monitoring, supervision and reporting. Include a description of the project/programme-level grievance redress mechanism, a summary of the extent of multi-stakeholder consultations undertaken for the project/programme, the plan of the Accredited Entity (AE) and EEs to continue to engage the stakeholders throughout project implementation, and the manner and timing of disclosure of the applicable safeguards reports following the requirements of the GCF [Information Disclosure Policy](#) and [Environmental and Social Policy](#).

Describe any potential impacts on indigenous peoples and the measures to address these impacts including the development of an Indigenous Peoples Plan and the process for meaningful consultation leading to free, prior and informed consent, pursuant to the GCF [Indigenous Peoples Policy](#).

Attach the appropriate assessment and management instruments or other applicable studies, depending on the environmental and social risk category as annex 6.

As part of its commitment to sound E&S risk management, responsible operations and sustainable development, the GFCR Fund will operate an Environmental and Social Management System (ESMS) in conformity with the requirements and standards of Development Finance Institutions (DFIs) and in particular those of the Green Climate Fund and IFC Performance Standards. The GFCR Fund will aim to be certified compatible with the SDGs and reporting performance against project-specific impact criteria. The GFCR Fund will thus contribute to several Sustainable Development Goals ("SDGs"), in particular [SDG 14 'Life Below Water', SDG 13, (Climate Action), SDG 6 (clean water and sanitation), SDG 8 (job creation), SDG 11 (sustainable communities) and SDG 3 (good health and well-being)].⁶⁸

The GFCR Fund is committed to maintaining, implementing, and continuously improving its ESMS to ensure implementation of this policy throughout the value chain (project identification, development, investment, monitoring and reporting). The ESMS includes an E&S categorization system that is consistent with the equivalent practices of the GCG, the International Finance Corporation (IFC), the European Investment Bank (EIB) and other Development Finance Institutions (DFIs).

The framework of the ESMS includes the following elements:

- E&S Policy
- Procedures, which are fully integrated with the fund's overall investment cycle
 - Transaction screening (incl. exclusion list)
 - Risk categorization
 - E&S due diligence
- Tools
- Guidance materials and reporting protocols

The full set of procedures that will be followed includes a process for screening of potential investments against the Exclusion List prior to a Go/No Go decision, to ensure that no investment is made in projects or companies that are operating with excluded activities. The screening process permits the provisional categorization of proposed projects into higher, medium and lower risk (Category A, B or C respectively) projects and that then determines the level of E&S due diligence required and the actions to be taken to minimize potential impacts.

⁶⁸ To be confirmed.

The risk categories are aligned with the IFC risk categorization⁶⁹:

- **Category A:** Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- **Category B:** Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- **Category C:** Business activities with minimal or no adverse environmental or social risks and/or impacts.

Due to the strict environmental and social safeguards, GFCR will not invest in Category A projects. Category projects are excluded from the Fund because projects shall not, under any circumstances, result in significant adverse impacts that are multiple, irreversible, or unprecedented.

All projects financed by the GFCR shall comply with host country regulatory requirements, the relevant IFC Performance Standards and good industry practice, respectively the EHS Guidelines of the World Bank Group.

G.2. Gender assessment and action plan (max. 500 words, approximately 1 page)

Provide a summary of the gender assessment and project/programme-level gender action plan that is aligned with the objectives of GCF's [Gender Policy](#). Confirm a gender assessment and action plan exists describing the process used to develop both documents. Provide information on the key findings (who is vulnerable and why) and key recommendations (how to address the vulnerability identified) of the gender assessment. Indicate if stakeholder consultations have taken place and describe the key inputs integrated into the action plan, including: how addressing the vulnerability will ensure equal participation and benefits from funds investment; key gender-related results to be expected from the project/programme with targets; implementation arrangements that the AE has put in place to ensure activities are implemented and expected outcomes will be achieved, monitored and evaluated.

Provide the full gender assessment and project-level gender action plan as annex 8.

The GFCR Gender Assessment serves to understand how the fund can address gender vulnerabilities and design specific gender elements in the different project categories. A gender specific sector and peer-projects assessment has been conducted to identify the drivers of change and the gender dynamics needed to achieve the fund's impact goals. The Gender Action Plan builds on the findings of the Gender Assessment and derives target outputs, outcomes and impacts and corresponding activities and indicators to ensure that GFCR meets its objectives.

GFCR has assessed each project category beginning with gender-related vulnerabilities and capacities for change in in the sectors and projects. This includes the assessment of access to resources, power and decision-making, knowledge and perception of women, and participation in the community and society, among others.

Based on the Gender Assessment, several vulnerabilities and capacities were identified in the focus areas of the GFCR and led to the conclusive impact objective to promote greater resilience and adaptive capacity of women and girls living in coral reef-dependent communities through the attainment of three main impacts:

- Empowerment of women and girls to promote independence and enable them to become agents of change;
- Better health outcomes and improved physical and emotional safety of women and girls;
- Sustainable livelihoods for women and girls.

Based on the identified impacts, key activities, outcomes and outputs were derived. These include, among others:

- Capacity and confidence building and skills training for women to promote entrepreneurship and business opportunities
- Empower women in decision-making, politically and socially
- Including women in the broader community and civil society organizations

⁶⁹ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization

- Promote decent work incl. equal pay, tackling sexual harassment and recruiting women into high-level employment
- Address women specific needs during project design and development through gender-responsive stakeholder consultation
- Promote health outcomes and reduce gender violence

Key gender-related indicators were developed for each of the impact objectives to measure the effectiveness of the approach. These include, among others:⁷⁰

- Empowerment of women and girls:
 - Percentage of women’s participation and leadership in community and at project level
 - Percentage of women making decisions on behalf of their families and communities
 - Number women with improved access to financial mechanisms
- Better health outcomes and improved physical and emotional safety:
 - (Water borne) disease prevalence
 - Rates of childhood stunting
 - Measurable reduction in gender-based violence
- Sustainable livelihoods for women and girls:
 - Number of women employed
 - Percentage of gender pay gap
 - Percentage of contractual relationships (temporary vs. permanent and full-time vs. part-time)

Indicators were also developed on process and project design level. Furthermore, the implementation of the GFCR Gender Policy and Gender Action Plan seek to ensure the effectiveness of the GFCR in regard to gender equality.

Additionally, the GFCR has a monitoring framework and processes in place to measure gender equality results against an established baseline. This occurs at every stage of the project, from initial feasibility, project design, preliminary design review, implementation and ongoing performance review. Monitoring is led by the ESMS Manager and external consultants if appropriate.

G.3. Financial management and procurement (max. 500 words, approximately 1 page)

Describe the project/programme’s financial management including the financial monitoring systems, financial accounting, auditing, and disbursement structure and methods. Refer to section B.4 on implementation arrangements as necessary.

Articulate any procurement issues that may require attention, e.g. procurement implementation arrangements and the role of the AE under the respective proposal, articulation of procurement risk assessment undertaken and how that will be managed by the AE or the implementing agency. Provide a detailed procurement plan as annex 10.

Pegasus maintains an Accounting Policy designed to ensure financial transactions are properly authorized, documented and executed. Pegasus’ funds are audited by an independent auditor on an annual basis and Pegasus also undergoes a compliance audit conducted by a third-party compliance consultant on an annual basis. All disbursements are subject to a three-party process. One individual from below (other than the Chief Compliance Officer (“CCO”)) can create a wire; then any other authorized person who did not create the wire can/will approve that wire; finally only the CCO or Controller (under the direction of the CCO) are authorized to release the wire as long as such individual had not previously approved that same wire. Each step of the process is logged automatically in the firm’s online banking portal.

- CCO – has the ability to review all activity of the bank accounts and generate reports. He/she also has the ability to approve and release wire transfers that have been entered into the website with restrictions. He/she cannot release a wire that they have approved nor can he/she release a wire that they have modified.
- Controller – has the ability to review all activity of the bank accounts and generate reports. He/she also has the ability to create, approve and release wire transfers that have been entered into the website with restrictions. He/she cannot approve or release a wire that they have created nor can he/she release a wire that they have modified.

⁷⁰ Refer to the Gender Action Plan for additional gender indicators. The indicators listed here are exemplars.

- Senior Accountant - has the ability to review all activity of the bank accounts and generate reports. He/she also has the ability to create wire and/or modify transfers on the bank's website. Such an individual shall also have the ability to approve a wire which he/she did not create. However, this person does not have the ability to release any wires.

G.4. Disclosure of funding proposal

Note: The Information Disclosure Policy (IDP) provides that the GCF will apply a presumption in favour of disclosure for all information and documents relating to the GCF and its funding activities. Under the IDP, project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Information provided in confidence is one of the exceptions, but this exception should not be applied broadly to an entire document if the document contains specific, segregable portions that can be disclosed without prejudice or harm.

Indicate below whether or not the funding proposal includes confidential information.

No confidential information: The accredited entity confirms that the funding proposal, including its annexes, may be disclosed in full by the GCF, as no information is being provided in confidence.

With confidential information: The accredited entity declares that the funding proposal, including its annexes, may not be disclosed in full by the GCF, as certain information is being provided in confidence. Accordingly, the accredited entity is providing to the Secretariat the following two copies of the funding proposal, including all annexes:

- full copy for internal use of the GCF in which the confidential portions are marked accordingly, together with an explanatory note regarding the said portions and the corresponding reason for confidentiality under the accredited entity's disclosure policy, and
- redacted copy for disclosure on the GCF website.

The funding proposal can only be processed upon receipt of the two copies above, if containing confidential information.

H. ANNEXES

H.1. Mandatory annexes

- Annex 1 NDA no-objection letter(s) [\(template provided\)](#)
- Annex 2 Feasibility study - and a market study, if applicable
- Annex 3 Economic and/or financial analyses in spreadsheet format
- Annex 4 Detailed budget plan [\(template provided\)](#)
- Annex 5 Implementation timetable including key project/programme milestones [\(template provided\)](#)
- Annex 6 E&S document corresponding to the E&S category (A, B or C; or I1, I2 or I3):
[\(ESS disclosure form provided\)](#)
 - Environmental and Social Impact Assessment (ESIA) or
 - Environmental and Social Management Plan (ESMP) or
 - Environmental and Social Management System (ESMS)
 - Others (please specify – e.g. Resettlement Action Plan, Resettlement Policy Framework, Indigenous People’s Plan, Land Acquisition Plan, etc.)
- Annex 7 Summary of consultations and stakeholder engagement plan
- Annex 8 Gender assessment and project/programme-level action plan [\(template provided\)](#)
- Annex 9 Legal due diligence (regulation, taxation and insurance)
- Annex 10 Procurement plan [\(template provided\)](#)
- Annex 11 Monitoring and evaluation plan [\(template provided\)](#)
- Annex 12 AE fee request [\(template provided\)](#)
- Annex 13 Co-financing commitment letter, if applicable [\(template provided\)](#)
- Annex 14 Term sheet including a detailed disbursement schedule and, if applicable, repayment schedule

H.2. Other annexes as applicable

- Annex 15 Evidence of internal approval [\(template provided\)](#)
- Annex 16 Map(s) indicating the location of proposed interventions
- Annex 17 Multi-country project/programme information [\(template provided\)](#)
- Annex 18 Appraisal, due diligence or evaluation report for proposals based on up-scaling or replicating a pilot project
- Annex 19 Procedures for controlling procurement by third parties or executing entities undertaking projects financed by the entity
- Annex 20 First level AML/CFT (KYC) assessment
- Annex 21 Operations manual (Operations and maintenance)
- Annex 22 Blended Finance Funds
- Annex 23 Potential impact on corals and beneficiaries
- Annex 24 Risks and barriers
- Annex 25 Sector Theories of Change



** Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.*

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Gross IRR is computed on an annual, compounding basis, and is calculated before any carried interest, management fees and other partnership expenses, and is calculated using cash flows as they actually occur. Net IRR cannot be calculated for an individual investment without making arbitrary assumptions about fees, expenses and carried interest.

Nothing in this “Notice to Recipients” is intended to modify Pegasus’ obligations to the Green Climate Fund as set forth in the Accreditation Master Agreement between Pegasus and the GCF.