

**CI-GEF PROJECT AGENCY**

**GEF Project Document**



**THE MELOY FUND**  
FOR SUSTAINABLE COMMUNITY FISHERIES

**The Meloy Fund:  
A Fund for Sustainable Small-Scale Fisheries in Southeast Asia**

**UPDATED AUGUST 17, 2017**

PROJECT INFORMATION			
<b>PROJECT TITLE:</b>	(NGI) The Meloy Fund: A Fund for Sustainable Small-Scale Fisheries in Southeast Asia		
<b>PROJECT OBJECTIVE:</b>	To improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes through capital investments in commercially viable enterprises.		
<b>PROJECT OUTCOMES:</b>	<ul style="list-style-type: none"> <li>• <b>Outcome 1.1:</b> The Meloy Fund will result in an increase in the area of coral reef ecosystems in Indonesia and the Philippines under improved sustainable management, through financial investments that incentivize the adoption of sustainable rights-based fisheries management practices that include protection for critical habitats.</li> <li>• <b>Outcome 2.1:</b> The capacity of portfolio companies to deliver on the Fund's environmental and social impact targets improved through fisheries technical assistance provided by Fish Forever.</li> <li>• <b>Outcome 2.2:</b> The integrity and functioning of targeted coral reef ecosystems maintained through the implementation of community rights-based management practices, as incentivized by Meloy Fund investments.</li> </ul>		
<b>COUNTRY(IES):</b>	Indonesia and Philippines	<b>GEF ID:</b>	9370
<b>GEF AGENCY(IES):</b>	Conservation International (CI)	<b>CI CONTRACT ID:</b>	
<b>OTHER EXECUTING PARTNERS:</b>	Rare	<b>DURATION IN MONTHS:</b>	60 months (Project Investment Period), over a 120-month term, plus two optional 12-month extensions
<b>GEF FOCAL AREA(S):</b>	Biodiversity	<b>START DATE (mm/yyyy):</b>	
<b>INTEGRATED APPROACH PILOT:</b>	N/A	<b>END DATE (mm/yyyy):</b>	
<b>NAME OF PARENT PROGRAM:</b>	N/A	<b>PRODOC SUBMISSION DATE:</b>	
<b>RE-SUBMISSION DATE(S):</b>			

FUNDING SOURCE	AMOUNT (USD)
<b>GEF PROJECT FUNDING:</b>	6,000,000
<b>PPG FUNDING:</b>	200,000
<b>TOTAL GEF GRANT:</b>	6,200,000
<b>CO-FINANCING 1: EQUITY INVESTMENTS</b>	12,000,000
<b>CO-FINANCING 2: RARE IN-KIND CO-FINANCING</b>	22,899,864
<b>CO-FINANCING 3: CI IN-KIND CO-FINANCING</b>	300,000
<b>TOTAL CO-FINANCING:</b>	35,199,864
<b>TOTAL PROJECT COST:</b>	41,399,864

## TABLE OF CONTENTS

<b>TABLE OF FIGURES</b> .....	<b>III</b>
<b>LIST OF TABLES</b> .....	<b>III</b>
<b>TABLE OF APPENDICES</b> .....	<b>III</b>
<b>ACRONYMS &amp; ABBREVIATIONS</b> .....	<b>IV</b>
<b>GLOSSARY OF TERMS</b> .....	<b>VI</b>
<b>SECTION 1: PROJECT SUMMARY</b> .....	<b>1</b>
A. PROJECT CONTEXT .....	1
B. THE MELOY FUND FOR SUSTAINABLE FISHERIES .....	1
C. PROJECT STRATEGY .....	2
<b>SECTION 2: PROJECT CONTEXT</b> .....	<b>4</b>
A. GEOGRAPHIC SCOPE.....	4
B. ENVIRONMENTAL CONTEXT AND GLOBAL SIGNIFICANCE .....	6
C. SOCIO-ECONOMIC AND CULTURAL CONTEXT .....	7
D. GLOBAL ENVIRONMENTAL PROBLEMS AND ROOT CAUSES .....	10
E. BARRIERS TO ADDRESSING THE ENVIRONMENTAL PROBLEMS AND ROOT CAUSES.....	13
F. CURRENT BASELINE (BUSINESS-AS-USUAL SCENARIO) / FUTURE SCENARIOS WITHOUT THE PROJECT.....	15
G. ALTERNATIVES TO THE BUSINESS-AS-USUAL SCENARIO.....	16
H. COST EFFECTIVENESS ANALYSIS OF CHOSEN ALTERNATIVE .....	17
<b>SECTION 3: PROJECT STRATEGY</b> .....	<b>19</b>
A. OBJECTIVE, COMPONENTS, EXPECTED OUTCOMES, TARGETS, AND OUTPUTS.....	19
B. ASSOCIATED BASELINE PROJECTS.....	38
C. INCREMENTAL COST REASONING .....	46
D. GLOBAL ENVIRONMENTAL BENEFITS .....	47
E. SOCIO-ECONOMIC BENEFITS.....	48
F. RISK ASSESSMENT AND MITIGATION .....	49
G. SUSTAINABILITY .....	53
H. INNOVATIVENESS .....	54
I. REPLICABILITY AND POTENTIAL FOR SCALING UP .....	54
J. CONSISTENCY WITH NATIONAL PRIORITIES, PLANS, POLICIES AND LEGAL FRAMEWORKS .....	55
K. CONSISTENCY WITH GEF FOCAL AREA AND/OR FUND(S) STRATEGIES .....	57
L. LINKAGES WITH OTHER GEF PROJECTS AND RELEVANT INITIATIVES.....	58
M. CONSISTENCY AND ALIGNMENT WITH CI INSTITUTIONAL PRIORITIES .....	64
N. COMMUNICATIONS AND KNOWLEDGE MANAGEMENT .....	65
O. LESSONS LEARNED DURING THE PPG PHASE AND FROM OTHER RELEVANT GEF PROJECTS .....	66
<b>SECTION 4: COMPLIANCE WITH CI-GEF PROJECT AGENCY’S ENVIRONMENTAL AND SOCIAL MANAGEMENT FRAMEWORK (ESMF)</b> .....	<b>68</b>
A. SAFEGUARDS SCREENING RESULTS AND CATEGORIZATION .....	68
B. COMPLIANCE WITH SAFEGUARD RECOMMENDATIONS.....	71
<b>SECTION 5: IMPLEMENTATION AND EXECUTION ARRANGEMENTS FOR PROJECT MANAGEMENT</b> .....	<b>77</b>
A. EXECUTION ARRANGEMENTS AND PARTNERS.....	77

B. PROJECT EXECUTION ORGANIZATIONAL CHART .....	80
<b>SECTION 6: MONITORING AND EVALUATION PLAN.....</b>	<b>82</b>
A. MONITORING AND EVALUATION ROLES AND RESPONSIBILITIES .....	82
B. MONITORING AND EVALUATION COMPONENTS AND ACTIVITIES .....	83
<b>SECTION 7: FUND PROJECTIONS AND FINANCING .....</b>	<b>88</b>
A. OVERALL FUND PROJECTIONS AND FINANCING .....	88
B. INDICATIVE RE-FLOW SCHEDULE .....	89
C. OVERALL PROJECT CO-FINANCING .....	90

## TABLE OF FIGURES

<u>FIGURE 1: MAP OF PROJECT AREA</u> .....	5
<u>FIGURE 2: FISHERY CYCLE WITHOUT SUSTAINABLE MANAGEMENT PRACTICES AND INCENTIVES IN PLACE</u> .....	13
<u>FIGURE 3: RELATIONSHIP BETWEEN THE MELOY FUND, MANAGED BY THE GP, AND RARE, THROUGH FISH FOREVER</u> .....	19
<u>FIGURE 4: AREA OF POTENTIAL INVESTMENT THROUGH THE MELOY FUND AND ITS OVERLAP WITH FISH FOREVER'S AREAS OF INTERVENTION IN INDONESIA AND THE PHILIPPINES</u> .....	33
<u>FIGURE 5: MELOY FUND ENVIRONMENTAL AND SOCIAL (E&amp;S) GUIDELINES IMPLEMENTATION</u> .....	73
<u>FIGURE 6: GEF PROJECT TEAM</u> .....	80
<u>FIGURE 7: MELOY FUND MANAGEMENT ORGANIZATIONAL CHART</u> .....	80
<u>FIGURE 8: FUND CORPORATE STRUCTURE</u> .....	81
<u>FIGURE 9: PROJECTED MELOY FUND WATERFALL</u> .....	89

## LIST OF TABLES

<u>TABLE 1: FUND PORTFOLIO SUCCESS METRICS</u> .....	20
<u>TABLE 2: FUND INVESTMENT CRITERIA</u> .....	22
<u>TABLE 3: FISHERIES TA PROVIDED TO THE MELOY FUND THROUGH FISH FOREVER</u> .....	32
<u>TABLE 4: BASELINE PROJECTS</u> .....	41
<u>TABLE 5: RISK ASSESSMENT AND MITIGATION PLANNING</u> .....	50
<u>TABLE 6: CONSISTENCY WITH NATIONAL PRIORITIES, PLANS, POLICIES AND LEGAL FRAMEWORKS</u> .....	55
<u>TABLE 7: OTHER RELEVANT PROJECTS AND INITIATIVES</u> .....	59
<u>TABLE 8: SAFEGUARD SCREENING RESULTS</u> .....	68
<u>TABLE 9: SAFEGUARD CATEGORIZATION</u> .....	70
<u>TABLE 10: ALIGNMENT OF SAFEGUARD PLANS WITH THE FUND'S E&amp;S MINIMUM STANDARDS</u> .....	75
<u>TABLE 11: M&amp;E PLAN SUMMARY</u> .....	86
<u>TABLE 12: FUND PROJECTIONS - HIGH LEVEL OVERVIEW</u> .....	88
<u>TABLE 13: INDICATIVE RE-FLOW SCHEDULE</u> .....	90
<u>TABLE 14: COMMITTED CASH AND IN-KIND CO-FINANCING (USD)</u> .....	91

## TABLE OF APPENDICES

<u>APPENDIX I: PROJECT RESULTS FRAMEWORK</u> .....	92
<u>APPENDIX II: PROJECT TIMELINE</u> .....	96
<u>APPENDIX III: PROJECT RESULTS MONITORING PLAN</u> .....	98
<u>APPENDIX IV: SAFEGUARD SCREENING FORM AND ANALYSIS</u> .....	110
<u>APPENDIX V: MELOY FUND ENVIRONMENTAL AND SOCIAL (E&amp;S) GUIDELINES</u> .....	119
<u>APPENDIX VI: COMPLIANCE PLAN FOR THE INVOLUNTARY RESETTLEMENT AND RESTRICTION OF ACCESS TO NATURAL RESOURCES SAFEGUARD</u> .....	128
<u>APPENDIX VII: COMPLIANCE PLAN FOR THE ACCOUNTABILITY AND GRIEVANCE MECHANISM</u> .....	130
<u>APPENDIX VIII: COMPLIANCE PLAN FOR STAKEHOLDER ENGAGEMENT</u> .....	132
<u>APPENDIX IX: COMPLIANCE PLAN FOR GENDER MAINSTREAMING</u> .....	139
<u>APPENDIX X: COMPLIANCE PLAN FOR INDIGENOUS PEOPLES</u> .....	146
<u>APPENDIX XI: CO-FINANCING COMMITMENT LETTERS</u> .....	149
<u>APPENDIX XII: BEST PRACTICES GUIDE TO IMPACT INVESTING - A SUMMARY OF CURRENT TRENDS AND PRACTICES</u> ....	151
<u>APPENDIX XIII: COMPILED BEST PRACTICE STANDARDS TO BE ADOPTED BY THE MELOY FUND</u> .....	158

## ACRONYMS & ABBREVIATIONS

ASC	Aquaculture Stewardship Council
ANDE	Aspen Network of Development Entrepreneurs (ANDE).
ADB	Asian Development Bank
AVPN	Asian Venture Philanthropy Network
ASEAN	Association of Southeast Asian Nations
BAU	Business-as-Usual
CSO	Civil Society Organization
CPIC	Coalition for Private Investment in Conservation
CFI	Coastal Fisheries Initiative
CASS	Conservation Alliance for Seafood Solutions
CEF	Conservation Enterprise Fund
CI	Conservation International
CI-GEF PA	Conservation International GEF Project Agency
CBD	Convention on Biological Diversity
COREMAP	Coral Reef Rehabilitation and Management Program
CTI-CFF	Coral Triangle Initiative for Coral Reefs
DTI	Department of Trade and Industry
DCA	Development Credit Authority
ECOFISH	Ecosystems Improved for Sustainable Fisheries Project
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
E&S	Environmental and social
FISH	Fisheries for Improved Sustainable Harvest
FIP	Fisheries Improvement Project
FMA	Fisheries Management Areas
FAO	Food and Agriculture Organization of the United Nations
LGT IC	Formerly LGT Venture Philanthropy (LGTVP)
FPIC	Free, Prior and Informed Consent
FIMC	Fund Investment and Management Committee
GMP	Gender Mainstreaming Plan
GP	General Partner
GIS	Geographic Information System
GAP	Global Aquaculture base, Chain of Custody
GBO	Global Biodiversity Outlook
GCRMN	Global Coral Reef Monitoring Network
GEF	Global Environment Facility
GIIN	Global Impact Investing Network
GPS	Global Positioning System
GNSS	Global Navigation Satellite System
GDP	Gross Domestic Product
IPP	Indigenous Peoples Plan
ILPA	Institutional Limited Partners Association
ICRM	Integrated Coastal Resource Management
IRR	Internal Rate of Return

ICRI	International Coral Reef Initiative
IFC	International Finance Corporation
KfW	Kreditanstalt für Wiederaufbau
LME	Large Marine Ecosystems
LP	Limited Partner
LPAC	Limited Partner Advisory Committee
LPA	Limited Partner Agreement
LGU	Local Governance Unit
MKBA	Marine Key Biodiversity Areas
MPA	Marine Protected Area
MSC	Marine Stewardship Council
MFAGM	Meloy Fund's Accountability and Grievance Mechanism
M&E	Monitoring and Evaluation
NBSAP	National Biodiversity Strategy and Action Plan
NTZ	No-take Zone
NGO	Non-Governmental Organization
PCM	Office of Private Capital and Microenterprise
PEMSEA	Partnerships in Environmental Management for the Seas of East Asia
PDRP	Philippine Rural Development Project
PAFPI	Philippines Association of Fish Producers Inc.
DNER	Philippines' Department of Natural Resources
PSCTF	Practice Standards for Conservation Trust Funds
PPUE	Price Per Unit Effort
PPG	Project Preparation Grant
RAMO	Rapid Assessment of Markets Opportunities
RBFM	Rights-based Fisheries Management
RBM	Rights-based Management
SME	Small and Medium Enterprise
SSFs	Small-Scale Fisheries
SEP	Stakeholder Engagement Plan
SBSTTA	Subsidiary Body on Science, Technical, and Technological Advice
SFP	Sustainable Fisheries Partnership
TA	Technical Assistance
TURF	Territorial User Rights in Fisheries
UNDP	United Nations Development Programme
USAID	United States Agency of International Development
USD	United States Dollar
UPMSI	University of the Philippines Marine Sciences Institute
VV	Verde Ventures Fund

## GLOSSARY OF TERMS

### **Coral Reef Ecosystems**

Areas of seascape that include coral cover and surrounding management areas (including seagrass beds, mangroves and oceanic) that impact coral health and integrity.

### **Fish Forever**

The Fish Forever Initiative aims to protect nearshore fisheries and conserve marine ecosystems by placing the power directly in the hands of communities to restore the fisheries to which their livelihoods and food security are so intimately linked. Within this framework an approach known as Territorial Use Rights for Fishing (TURF) + reserves, helps communities or districts secure the legal right to access fisheries off their coasts as well as to manage the resource. [www.fishforever.org](http://www.fishforever.org)

### **TURF + reserves**

TURFs grant local communities exclusive access privileges to local fishing areas based on legal or traditional tenure systems, while reserves, are protected areas established inside or near exclusive access areas that allow fish and coastal habitats to flourish in the absence of human pressures. As populations rebound, fish then spillover into surrounding fishing areas. These fish recovery zones are also sometimes called marine reserves, marine-protected areas (MPAs) or no-take zones (NTZs).

### **Fisheries Improvement Project (FIP)**

A FIP is a stakeholder alliance (retailers, processors, producers, and/or fishers) intended to improve a fishery's practices and management and resolve problems within a specific fishery often related with environmental challenges and overfishing. The most effective members of a FIP are those organizations and individuals that have (a) a financial stake in the fishery; (b) specialist technical knowledge; (c) regulatory duty; or (d) can require certain practices as a result of product specifications or procurement policies. FIPs are intended to utilize the private sector to incentivize positive changes towards sustainability. Other key FIP members include government, fishery managers, and nongovernmental organizations. Although FIPs can vary by size and structure, successful FIPs must accomplish the following: (a) data collection and assessment; and (b) develop and implement a work plan, including monitoring and evaluation procedures. FIPs do not end at a common, predetermined point, though many may choose a form of certification, such as that offered by the Marine Stewardship Council.

### **Side Letter**

Investment funds, such as the Meloy Fund, are typically structured as limited partnerships that are governed by the terms of a Limited Partnership Agreement (LPA) between the Fund's General Partner and the Fund's Limited Partners (LPs). Individual LPs and the General Partner (GP) of the fund may agree on a "side letter" that will include specific provisions applicable only to them, as opposed to being incorporated in the LPA which would apply to everyone under the limited partnership. These specific provisions typically address special arrangements with certain investors.

## SECTION 1: PROJECT SUMMARY

### A. Project Context

1. In Indonesia, approximately 95 percent of fishery production comes from small-scale fishers<sup>1</sup>, while in the Philippines, municipal fisheries, which consist of small-scale and artisanal fishers, account for approximately half of the fishery production in the country<sup>2</sup>. However, continued degradation of the marine ecosystem (i.e. the destruction of coral reefs, mangroves and sea grass beds, which act as natural habitat for fish and other marine organisms to use as their spawning ground, feeding ground, and/or nursery grounds) threatens this important resource base. It is estimated that Indonesia has approximately 51,000 km<sup>2</sup> of coral reefs, equal to 51 percent of the region's coral reefs and 18 percent of the world's coral reefs. The Philippine coral reefs are second largest in region, estimated at approximately 27,000 km<sup>2</sup>. Most of these reefs are fringing reefs, adjacent to the coastline and easily accessible to coastal communities and small-scale fishers. Overfishing has been recognized as the most important threat to these reefs,<sup>3</sup> a rampant practice due to largely unregulated, open-access fisheries.

### B. The Meloy Fund for Sustainable Fisheries

2. The Meloy Fund is an USD 18 – 20 million investment vehicle that seeks to incentivize the rapid adoption of sustainable fisheries behaviors by investing in fishing and seafood-related enterprises in Indonesia and the Philippines. The investment objective of the Fund is to generate measurable social and environmental outcomes and provide reasonable financial returns for investors by making debt and equity investments in fishing and seafood-related enterprises at different stages of growth that have operations in Indonesia and the Philippines.
3. To ensure its environmental and social targets are achieved, the Meloy Fund has developed novel Environmental and Social (E&S) Guidelines (see Appendix V). The Fund's E&S standards are designed to ensure that for the Fund's investees:
  - Clear minimum standards for sourcing sustainable fish, or otherwise participating in the fishing supply chain, are agreed upon and monitored;
  - General environmental and social minimums are met regarding the holistic impact of an investee's operations;
  - Impact targets related to the use of the investment and expectations of growth over time are agreed upon, which in some cases may inform financial rewards or penalties, and
  - A comprehensive multi-stakeholder roadmap is produced and implemented to ensure fisheries recovery over time (via a Fisheries Improvement Project - FIP<sup>4</sup>).

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<sup>1</sup> <http://www.fao.org/fishery/facp/IDN/en>

<sup>2</sup> <http://innri.unuftp.is/pdf/Philippine%20Fisheries.pdf>

<sup>3</sup> The GEF-6 Biodiversity Strategy. Global Environment Facility.

<sup>4</sup> Each FIP is a stakeholder alliance (retailers, processors, producers, and/or fishers) intended to improve a fishery's practices and management and resolve problems within a specific fishery often related with environmental challenges and overfishing. The most effective members of a FIP are those organizations and individuals that have (a) a financial stake in the fishery; (b) specialist technical knowledge; (c) regulatory duty; or (d) can require certain practices as a result of product specifications or procurement policies. FIPs are intended to utilize the private sector to incentivize positive changes towards sustainability. Other key FIP members include government, fishery managers, and nongovernmental organizations. Although FIPs can vary by size and structure, successful FIPs must accomplish the following: (a) data collection and assessment; and (b) develop and implement a work plan, including monitoring and evaluation procedures. FIPs do not end at a common, predetermined point, though many may choose a form of certification, such as that offered by the Marine Stewardship Council.

4. The General Partner (GP) of the Fund is the Meloy Fund I GP, LLC, a Delaware limited liability company and wholly-owned subsidiary of Rare. Rare is the sole member of the GP. Fund governance will be set-up and managed generally in accordance with the Institutional Limited Partners Association (ILPA) Private Equity Principles. The GP will have a dedicated fund management team, which will manage the relationship with each investee, through the origination, supervision, and exit from each portfolio investment. The sole decision-making body of the GP on behalf of the Fund will be the Fund Investment and Management Committee (FIMC). The FIMC will also be responsible for reporting to the Fund's Limited Partners (LPs). Supervision and additional advisory support will be provided through various bodies including, but not limited to, the Limited Partner Advisory Committee (LPAC), which will be composed of an advisory committee of representatives of the LPs appointed by the GP.
5. Project monitoring and evaluation will be conducted in accordance with established CI and GEF procedures by the project team (including Rare grants management and Fish Forever program personnel, as well as the FIMC) and the CI-GEF Project Agency.

### C. Project Strategy

6. The project will be financed through a USD 6 million equity investment by the GEF (under the GEF-6 Non-Grant Instrument Pilot) with USD 12 million in equity co-financing provided through Rare.
7. As a part of Rare's sustainable fisheries programs, Rare has created a multi-country coastal fisheries recovery program called Fish Forever<sup>5</sup>, to facilitate management of marine common-pool resources which, under traditional open-access fishery regimes, has led to rampant overfishing and destructive fishing for decades.<sup>6</sup> By placing local ownership of fisheries in fishers' hands, Fish Forever facilitates the development of sustainable fisheries management and as a result, allows for the utilization of financial incentives to motivate the adoption of such sustainable behavior. The relationship between the Meloy Fund and Rare is intended to provide a link between the Fund's investments and communities' transition to sustainable fisheries management; a symbiotic system in which improved governance and the creation of a monetizable asset for local fishers (via exclusive access) enables new economic opportunities, which in turn encourage more sustainable long-term fisheries management and an increase in asset value.
8. The Fund's GP will work closely with Rare, including through Fish Forever, to provide expertise and fisheries technical assistance (TA) support to the GP and enterprises in which the Fund invests. Indonesia and the Philippines were selected as the geographical focus of the Fund given that Rare has a thorough understanding of the market in these countries, as well as well-developed operations, providing the Fund's GP with the ability to capitalize on Rare's expertise. The targeted area of impact for the project is 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems<sup>7</sup> in Indonesia and the Philippines.

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<sup>5</sup> The Fish Forever Initiative aims to protect nearshore fisheries and conserve marine ecosystems by placing the power directly in the hands of communities to restore the fisheries to which their livelihoods and food security are so intimately linked. Within this framework, an approach known as Territorial Use Rights for Fishing (TURF) + reserves helps communities or districts secure the legal right to access fisheries off their coasts as well as to manage the resource.

<sup>6</sup> See <http://www.fishforever.org/>.

<sup>7</sup> Under this project, *coral reef ecosystems* refer to areas of seascape that include coral cover and surrounding management areas (including seagrass beds, mangroves and oceanic) that directly and indirectly impact coral health and integrity.

9. Through Meloy Fund investments, the project will aim to incentivize the sustainable management of these important fishery resources. As such, the overall objective of this non-grant pilot project is to improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes through capital investments in commercially viable enterprises.
10. The Meloy Fund and Fish Forever's strategies are closely intertwined, such that both are included as components of the proposed project (although no financial resources are being requested of the GEF in direct support of Component 2 under this non-grant instrument).
11. The two project components are as follows:
  1. The Meloy Fund for Sustainable Small-Scale Fisheries (USD 6 million requested from GEF);  
and
  2. Fisheries technical assistance (TA) through Fish Forever (USD 0 requested from GEF)
12. The two project components complement each other to ensure that investments made through the Meloy Fund deliver the desired global environmental benefits. Given that the overall objective of the GEF 6 non-grant pilot is "to support the achievement of the GEF's objectives through the use of non-grant instruments for targeted investments that promote global environmental benefits"<sup>8</sup>, this pilot project (the Meloy Fund) will offer new learning opportunities for the application of non-grant financial instruments as a tool to help combat environmental degradation of important small-scale and coastal fishery habitats. If successful in Indonesia and the Philippines, this non-grant pilot project can serve as a model for the establishment of similar mechanisms and financing instruments in this and other regions.

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<sup>8</sup> [https://www.thegef.org/sites/default/files/council-meeting-documents/16\\_EN\\_GEF\\_C\\_47\\_06\\_GEF-6\\_Non-Grant\\_Instrument\\_Pilot\\_and\\_Updated\\_Policy\\_for\\_Non-Grant\\_Instruments\\_1.pdf](https://www.thegef.org/sites/default/files/council-meeting-documents/16_EN_GEF_C_47_06_GEF-6_Non-Grant_Instrument_Pilot_and_Updated_Policy_for_Non-Grant_Instruments_1.pdf) (pg. 5)

## SECTION 2: PROJECT CONTEXT

### A. Geographic Scope

13. The region of this project is unique in its abundance and variety of coral reefs, and is at the center of coral reef ecosystem biodiversity. Coral reefs are essential habitat that support many small-scale and coastal fisheries, and yet it is estimated 85 percent of the world's coral reefs are under immediate and direct threat from human activities, including overfishing<sup>9</sup>. The Meloy Fund for Sustainable Community Fisheries is a debt and equity impact investment fund focused on Indonesia and the Philippines. By investing capital into scalable enterprises that can play a key role in incentivizing sustainably managed community small-scale fisheries (SSFs), the Fund will help to maintain the integrity and functioning of important coral reef ecosystems throughout Indonesia and the Philippines. The Meloy Fund will seek investments whose businesses directly impact coral reef ecosystems of global importance. Furthermore, the investments of this fund will be highly leveraged by Rare's local presence and accumulated technical expertise through its Fish Forever Initiative.
14. The Indonesian government plays a critical role in determining how the country's fishery resources are managed. Despite the Provincial Management Authority Law (Law 23/2014) that devolved much of the district's authority over nearshore fisheries management to the provincial level, the district government remains involved – as provinces are too large for the centralized provincial government to manage alone. With this in mind, Rare estimates that of the 514 districts in Indonesia, approximately 220 districts (with coral reef ecosystems) may be appropriate for managed access fishery management systems – such as the Territorial Use Rights for Fishing (TURF)<sup>10</sup> + reserve system of Fish Forever.
15. Philippine waters are a natural fit for community-managed fisheries. The near-shore waters (15km from the coastline) are already delineated and under the jurisdiction of a decentralized local municipal government. Registered and licensed fishers from those municipalities have preferential rights to fish within those areas, and only local legislation is required to declare managed access areas and fish reserves (better known as sanctuaries in the Philippines) within them. The local government unit (LGU), working with fisher communities, can implement and enforce various fishery management strategies that will benefit users from that municipality.<sup>11</sup> We estimate that of the Philippines' 891 coastal municipalities, approximately 665 are sites where managed access fishery management systems have the potential to address near-shore fisheries problems with a lasting, durable solution.<sup>12</sup>
16. Indonesia and the Philippines were selected as the geographical focus of the Fund given that Rare has a thorough understanding of the market in these countries as well as well-developed operations, providing the Fund's General Partner (GP) the ability to capitalize on Rare's expertise.

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<sup>9</sup> <http://blogs.edf.org/edfish/2012/07/11/fao-reports-87-of-the-worlds-fisheries-are-overexploited-or-fully-exploited/>

<sup>10</sup> Territorial User Rights in Fisheries (TURFs) grant local communities exclusive access privileges to local fishing areas based on legal or traditional tenure systems, while reserves, are protected areas established inside or near exclusive access areas that allow fish and coastal habitats to flourish in the absence of human pressures. As populations rebound, fish then spillover into surrounding fishing areas. Fish recovery zones are sometimes called marine reserves, marine-protected areas (MPAs) or no-take zones (NTZs).

<sup>11</sup> The only exceptions to this law are coastal waters under the National Integrated Protected Area System (NIPAS), where national government overrides the local government authority - 17 percent of the country's coastline is within NIPAS areas.

<sup>12</sup> These are areas that are not yet too heavily industrialized and highly populated, nor too small for TURF-Reserves.

The GP also anticipates that the geographical proximity of these countries will allow for easier Fund management.

17. By helping to incentive communities in Indonesia and the Philippines to sustainably manage their SSFs, investments made through the Meloy Fund will help to improve the livelihoods of 100,000 small-scale fishers and their families, while also improving the management of 1.2 million hectares (12,000km<sup>2</sup>) coral reef ecosystems in Indonesia and the Philippines
18. As feasible, the Fund will target and encourage investments which will have direct impacts at Fish Forever sites (including alumni sites). However, as the pipeline of portfolio companies (investees) is still being developed and assessed, the specific geographic locations of the Fund's investment impact will be identified during project implementation. Furthermore, Rare has an emerging strategy for the location of its future Fish Forever sites in each of the focal countries. In future, Rare is looking at implementing Fish Forever within three provinces within Indonesia - namely West Papua, Southeast Sulawesi and East Nusa Tenggara - and six provinces within the Philippines - namely Surigao del Norte, Cebu, Masbate, Negros Occidental, Occidental Mindoro and Southern Leyte.

**Figure 1: Map of Project Area**



## B. Environmental Context and Global Significance

19. Indonesian and Philippine waters contain 77 percent of Southeast Asia's coral reefs and nearly 80 percent of threatened reefs within the Coral Triangle<sup>13</sup>. Overfishing has been recognized as the most important local threat to these reefs,<sup>14</sup> a rampant practice due to largely unregulated, open-access fisheries. As a result, not only are average fish stocks currently far below healthy levels and trophic levels out of balance, but also significant deterioration of the critical coral habitats on which these fish depend. While rights-based management (RBM) strategies offer a needed incentive to organize a reduction in fishing pressure, economic incentives must also be in place to ensure that transitioning to sustainable fisheries management is both feasible and enduring. The Meloy Fund is Rare's solution to address this gap by creating market-based incentives to accelerate the behavior changes necessary to manage SSF sustainably.
20. When communities effectively manage reserves, they can regulate fishing and bring progress towards sustainable fishing status (i.e. recover fish stock), usually within three to seven years. During those years, studies have consistently shown, organisms within marine reserves grow larger and live longer than those in adjacent unprotected areas. Studies also demonstrate that marine reserves boost fish stocks by an average of 446 percent inside the protected area<sup>15</sup> and 207 percent in adjoining areas.<sup>16</sup> This growth occurs through spillover as well as "seeding," since fish in reserves tend to be larger and older, and they produce significantly more eggs and larvae than smaller fish. These extraordinarily positive outcomes of establishing TURF + reserves are a strong incentive for fishers and communities to adopt the new behaviors.
21. Healthy coral and mangrove ecosystems also provide significant ecosystem services to coastal communities. Both coral and mangroves protect communities from coastal damage by buffering storms; with coral reducing wave energy by 97 percent<sup>17</sup> and mangroves reducing wave height by 66 percent.<sup>18</sup> This protective function of coral reefs has an estimated global value of USD 9 billion per year.<sup>19</sup>
22. Indonesia and the Philippines are the world's two largest archipelagic nations, with combined coastlines totaling 90,000km. Indonesia and the Philippines, the two countries in which the Fund will invest, represents 3.8 million small-scale fishers;<sup>20</sup> 3.5 million tons of coastal fish,<sup>21</sup> and 21 million

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<sup>13</sup> The *Coral Triangle* is a globally important bioregion that passes through six countries (the Philippines, Indonesia, Malaysia, Papua New Guinea, Solomon Islands and East Timor), and harbors more marine species than anywhere else on the planet – including 76 percent of all known coral species <http://thecoraltriangle.com/about>.

<sup>14</sup> The GEF-6 Biodiversity Strategy. Global Environment Facility.

<sup>15</sup> Lester, S. et al., "Biological Effects within No-Take Zone Marine Reserves: A Global Synthesis," *Marine Ecology Progress Series*, Vol. 384 (2009), 33-46.

<sup>16</sup> Worm, B. et al., "Impacts of Biodiversity Loss on Ocean Ecosystem Services," *Science* 314 (2006), 787-790.

<sup>17</sup> Ferrario, Filippo, Michael W. Beck, Curt D. Storlazzi, Fiorenza Micheli, Christine C. Shepard, and Laura Airoidi. "The effectiveness of coral reefs for coastal hazard risk reduction and adaptation." *Nature Communications* 5 (2014).

<sup>18</sup> McIvor, A. L., Iris Möller, Tom Spencer, and Mark Spalding. *Reduction of wind and swell waves by mangroves*. The Nature Conservancy and Wetlands International, 2012.

<sup>19</sup> Cesar, Herman, Lauretta Burke and Lida Pet-Soede. *The Economics of Worldwide Coral Reef Degradation*. Zeist, Netherlands: Cesar Environmental Economics Consulting, 2003.

<sup>20</sup> FAO Fishery and Aquaculture Country Profiles for Philippines and Indonesia. <http://www.fao.org/fishery/facp/PHL/en>; <http://www.fao.org/fishery/facp/IDN/en>.

<sup>21</sup> Philippine Statistics Authority and Fishstat.

hectares (210,000km<sup>2</sup>) of critical marine habitat (coral reefs, mangroves, and seagrass beds).<sup>22</sup> Both nations also rely heavily on the economic strength of fish production from commercial fishing and artisanal or municipal fishing. Small-scale fisheries in both nations are a major source of fish for domestic consumption and export, but are limited by resource and habitat depletion, and conflict over fishery resources resulting from poor management and a lack of credit and financial support. In addition, these two countries are vulnerable to a wide range of natural threats such as typhoons, flooding, earthquakes, landslides, and heavy storms, which can threaten necessary infrastructure and equipment.

### C. Socio-Economic and Cultural Context

23. Coral reef fisheries provide billions of dollars to the economies of many countries around the globe,<sup>23</sup> estimated \$6.8 billion a year globally,<sup>24</sup> providing income, food, important ecological functions for coral reefs, supporting reef health, an important social safety net for people when other sources of employment are unavailable. Globally, over 6 million fishers and gleaners are employed in coral reef fisheries.<sup>25</sup> Many fishing fleets have grown near coral reefs all around the world, catching more fish than coral reef ecosystems can support. As populations steadily increase along coastlines near coral reefs, additional stress is put on coral reef ecosystems and coral reef fish are decreasing in number all over the world

#### *Indonesia*

24. With over 250 million people, Indonesia is the world's fourth most populous nation. Indonesia is also the world's largest country that is comprised solely of islands. The archipelago is composed of some 17,500 islands, of which more than 7,000 are uninhabited. Indonesia's coastal waters hold the largest tracks of mangroves<sup>26</sup> and second largest area of coral reef<sup>27</sup> in the world. These rich ecosystems are home to some of the greatest biodiversity in the world.<sup>28</sup> In Indonesia, reef fisheries have become a significant economic driver to over 2 million fishers.<sup>29</sup> However, over the past decade, the production of reef fisheries has shown a decline due to exponentially rising impact of coral reef habitat degradation at a comparable rate in many places. The number of operating fleet or fisherman harvesting without any control has led them sail farther from their fishing base with a relatively reducing in catch size and amount in most of places in Indonesia.
25. The Indonesian national motto, "*Bhinneka tunggal ika*" (unity in diversity), references the extraordinary diversity of the Indonesian population that has emerged from the ongoing confluence of peoples, languages, and cultures. The country is highly ethnically diverse - there are 360 different

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<sup>22</sup> Calculations based on various sources: <http://earthobservatory.nasa.gov/IOTD/view.php?id=47427>; <http://coral.org/what-we-do/where-we-work/indonesia/>; <http://jakartaglobe.beritasatu.com/news/scientists-say-indonesia-seagrass-meadows-degradation-threatens-food-security/>; <http://www.philstar.com/nation/2012/08/22/840636/phl-mangrove-forests-down-117000-hectares>; <http://www.bfar.da.gov.ph/habitat.jsp?id=4>; <http://www.metric-conversions.org/area/square-miles-to-hectares.htm>.

<sup>23</sup> Burke, L., K. Reyntar, M. Spalding, and A. Perry. 2011 Reefs at Risk Revisited. Washington, D.C., World Resources Institute (WRI), The Nature Conservancy, WorldFish Center, International Coral Reef Action Network, UNEP World Conservation Monitoring Centre and Global Coral Reef Monitoring Network, 114p.

<sup>24</sup> *ibid*

<sup>25</sup> Teh, L.S., L.C. Teh, and U.R. Sumaila. 2013. A Global Estimate of the Number of Coral Reef Fishers. PLoS ONE 8(6).

<sup>26</sup> FAO, The World's Mangroves 1980-2005. Rome: Forest Resources Division, 2007.

<sup>27</sup> Burke, Lauretta, Kathleen Reyntar, Mark Spalding, Allison Perry. Reefs at Risk Revisited in the Coral Triangle. Washington, DC: WRI, 2012. [http://pdf.wri.org/reefs\\_at\\_risk\\_revisited\\_coral\\_triangle.pdf](http://pdf.wri.org/reefs_at_risk_revisited_coral_triangle.pdf)

<sup>28</sup> Allen, Gerald R., and Mohammed Adrim. "Coral reef fishes of Indonesia." Zoological Studies-Taipei 42, no. 1 (2003): 1-72.

<sup>29</sup> <http://www.wwf.or.id/en/?44082/Sustainable-Reef-Fisheries-Solution>

ethnic groups, with more than 600 languages and dialects, however, only 13 have more than one million speakers.

26. Indonesia has the second longest coastline in the world, with 40 percent of the population (approximately 100 million people) living near the coast<sup>30</sup> within 30km of a coral reef<sup>31</sup>. These coastal ecosystems also play an important role in mitigating the impacts of increasingly frequent and destructive climate extremes – impacts that disproportionately affect poor coastal communities. Near-shore fisheries can play an essential role in national food security, nutritional health and resilience to climate shocks for some of Indonesia’s most impoverished communities.
27. However, these immense near-shore resources are severely threatened by unsustainable fishing practices, poor enforcement and governance, degradation of critical marine habitats and non-fishing stressors such as climate change. As a result, over 20 percent of Indonesia’s fish stocks are currently overexploited or collapsed<sup>32</sup>. The resulting persistent decline in fisheries due to overfishing and the related deteriorating health of natural infrastructures such as coral reefs and mangroves destabilizes nationwide development efforts and poses a material threat to Indonesia’s economy, food security and livelihoods.
28. Fisheries play an important role in the economy of the country. A relatively large number of people (more than 6 million) are involved directly and indirectly in the sector.<sup>33</sup> Indonesia’s near-shore fisheries are an essential source of food, income and cultural heritage to its people. Indonesia is the second largest producer of wild-caught seafood in the world, with Indonesian fishers capturing over 5.4 million tons of seafood in 2012 and contributing 3 percent of Indonesia’s Gross Domestic Product (GDP)<sup>34</sup>. Sixty percent of those fishers (both men and women), or 1.6 million, are small-scale fishers, and 85 percent of their catch is used for domestic consumption.<sup>35</sup> In fact, 54 percent of Indonesians’ primary source of animal protein comes from fish and seafood.<sup>36</sup> Restoration of SSF can provide a reliable source of protein, improve livelihoods, protect marine habitat, and improve coastal climate resilience for those communities most in need.
29. Indonesia’s massive coastline is also home to the largest tracks of mangroves and the second largest coral reef system in the world, marking it as an important biodiversity hotspot. Despite abundant resources, conflicting management authorities within the government had previously made it difficult to implement widely adopted protection measures. However, in recent years, community-led sustainable management has gained political support, signaling a willingness to engage in more effective management at the national level.

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<sup>30</sup> Asian Development Bank, *State of the Coral Triangle: Indonesia*. Mandaluyong City, Philippines: Asian Development Bank, 2014

<sup>31</sup> Burke L., Reyntar K., Spalding M., Perry A. “Reefs at Risk Revisited in the Coral Triangle.” World Resources Institute (2012): pg. 26-27.

<sup>32</sup> <http://www.seaaroundus.org>

<sup>33</sup> <http://www.fao.org/fishery/facp/IDN/en>

<sup>34</sup> FAO, “The State of World Fisheries and Aquaculture,” FAO Fisheries and Aquaculture Department, updated May 29, 2014, accessed February 5, 2015, <http://www.fao.org/fishery/sofia/en>

<sup>35</sup> FAO and WorldFish Center, “Small-Scale Capture Fisheries: A Global Overview with Emphasis on Developing Countries,” 2008, [http://pubs.worldfishcenter.org/resource\\_centre/Big\\_Numbers\\_Project\\_Preliminary\\_Report.pdf](http://pubs.worldfishcenter.org/resource_centre/Big_Numbers_Project_Preliminary_Report.pdf)

<sup>36</sup> FAO, “Indonesia, FAO to Strengthen Fisheries and Aquaculture Cooperation,” May 27, 2013 <http://www.fao.org/news/story/en/item/176776/icode/>

30. Given that the trading of fish and fishing activities are interrelated means that men and women rely on each other throughout the SSF value chain. Women participate in a range of fishery related activities which produce an important source of food security and income for their households<sup>37</sup>. However, even though women hold important roles in Indonesia's SSF sector, in some communities they remain excluded from fisheries management decision-making.

### *Philippines*

31. With a population of over 100 million, the Philippines ranks twelfth in the world in terms of population size. Its annual growth rate of around 2 percent makes it one of the fastest growing countries in the world.<sup>38</sup> Like Indonesia, the Philippines is an archipelago, made up of more than 7,000 islands of which approximately only 100 are populated. The Philippines has the 5<sup>th</sup> longest coastline in the world, with an estimated 62 percent of the nation's total population living within coastal areas. Furthermore, more than 50 percent of Philippine municipalities and most of its major cities are coastal.
32. The ethnically diverse people of the Philippines are collectively called Filipinos. Contemporary Filipino society consists of approximately 100 culturally and linguistically distinct ethnic groups. There are an estimated 175 languages/dialects spoken in the Philippines, 171 of which are living while the other four no longer have any known speakers.
33. In 2012, the Philippines ranked among the major fish producing countries in the world with a total production of 3.1 million tons of seafood, contributing an estimated 1.8 percent of Philippines GDP. Over 1.6 million Filipinos depend on the fishing industry for their livelihood.<sup>39</sup> There is misconception by some that women are not involved in the fishing sector in the Philippines. However, studies indicate that women are in fact involved in pre-harvest activities like gleaning for mollusks and other invertebrates and post-harvest fishing activities involving fish processing and selling the catch. In the barrangays, or fishing villages, both men and women serve as mayors and are involved in decision-making regarding fisheries management. Numerous communities even have women leading their fisheries management committees.
34. Unfortunately, over the last several decades, fish catch has declined from an average catch of 25 to 40 kg/trip/municipal fisher in the 1970s to an average of three kg/trip/municipal fisher in 2003<sup>40</sup>. Since the country is also one of the most vulnerable to climate change, these small-scale fishers, already considered the poorest of the poor, are dependent on resilient coastal ecosystems and fisheries to secure their livelihoods and reduce the vulnerability of their communities.
35. Municipal fisheries in the Philippines employ 84 percent of people in the fishery sector, and despite economic increases in commercial fisheries and aquaculture, production volume in municipal fisheries is on the decline. Furthermore, fishers in the Philippines have the highest incidence of poverty than any other sector at nearly twice the national rate. In the past, municipal fisheries have been the domain of local governments, but in recent years, the management of small fisheries has

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<sup>37</sup> Fitriana, Ria et al. "The Role of Women in the Fishery Sector of Pantar Island, Indonesia." *Gender in Aquaculture and Fisheries: Moving the Agenda Forward Asian Fisheries Science Special Issue Vol.25S.2012*.

<sup>38</sup> Tope, Lily Rose R., Detch P. Nonan-Mercado, and Yong Jui Li. *Philippines (Cultures of the World)*. Tarrytown, NY: Marshall Cavendish, 2013.

<sup>39</sup> <https://www.wcpfc.int/system/files/AR-CCM-20%20PHILIPPINES%20PART%201.pdf>

<sup>40</sup> Green, S.J., White, A.T., Flores, J.O., Carreon, M.F., III, and Sia, A.E. (2003). *Philippine Fisheries in Crisis: a Framework for Management*.

received national attention in terms of economic development, poverty alleviation, and food security issues.

#### D. Global Environmental Problems and Root Causes

##### *Global Environmental Problems:*

36. Coral reefs are essential habitat that support coral reef fisheries, and yet more than 60 percent of the world's coral reefs are under immediate and direct threat from human activities including overfishing.<sup>41</sup> Overfishing, destructive fishing, and changing environmental conditions are among the most pervasive threats to marine environments, affecting the majority of coral reefs. As outlined in the Global Biodiversity Outlook 4 (GBO-4), "overfishing remains a major threat to marine ecosystems<sup>42</sup>". Based on FAO estimates from 2012, over 85 percent of the world's fisheries are overexploited or fully exploited<sup>43</sup>. In addition to threatening livelihoods, overfishing negatively impacts ecosystem health in a number of ways, including through a decline of species diversity and abundance and by reducing the number of grazers, which eat harmful algae growing on corals<sup>44</sup>. In the decade leading up to 2007 – the latest period assessed – the percent of coral reefs rated as threatened increased by nearly one third (30 percent). Local pressures are most severe in Southeast Asia, where nearly 95 percent of coral reefs are threatened.<sup>45</sup>
37. At the same time, over 200 million people in developing countries depend on coral reef fisheries and aquaculture for their livelihoods. In the Philippines, 84 percent of the country's 1.6 million people working in fisheries are in the municipal or small-scale sector<sup>46</sup>, and in Indonesia, 60 percent of fishers work in the small-scale sector.<sup>47</sup> In many cases, these fishers employ destructive and indiscriminate practices in effort to extract as much as possible from declining resources, especially where unregulated open access conditions prevail. Common practices amongst coral reef fishers in Southeast Asia include utilizing explosives, which destroy habitats, and muroami practices – a technique of violently pounding coral to scare fish out into awaiting nets.<sup>48</sup> These practices take a drastic and sometimes irreversible toll on critically endangered habitats.
38. Globally, half of all fish is caught by the world's poorest communities living in close proximity to the coastline. Overfishing and destructive fishing methods threaten both the viability of fish stocks and the habitats on which they survive. Compounded by increases in the frequency and severity of weather events, rising ocean temperatures and other changing environmental conditions, some of the world's most globally significant biodiversity – and the livelihoods which depend on it – are at risk. Without sufficient financial incentives to motivate fishing communities to protect and

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<sup>41</sup> Burke, L., K. Reyntar, M. Spalding, and A. Perry. 2011. Reefs at Risk Revisited. Washington, D.C., World Resources Institute (WRI), The Nature Conservancy, WorldFish Center, International Coral Reef Action Network, UNEP World Conservation Monitoring Centre and Global Coral Reef Monitoring Network, 114p.

<sup>42</sup> Global Biodiversity Outlook (GBO)-4, p.49: <https://www.cbd.int/gbo/gbo4/publication/gbo4-en-hr.pdf>

<sup>43</sup> <http://blogs.edf.org/edfish/2012/07/11/fao-reports-87-of-the-worlds-fisheries-are-overexploited-or-fully-exploited/>

<sup>44</sup> *Status and Trends of Caribbean Coral Reefs: 1970-2012*, as quoted in "Parrotfish key to reef survival." International Coral Reef Initiative. Downloaded from <http://www.icriforum.org/caribbeanreport>.

<sup>45</sup> GBO-4, p.77: <https://www.cbd.int/gbo/gbo4/publication/gbo4-en.pdf>

<sup>46</sup> 2002 Census of Agriculture and Fisheries

<sup>47</sup> FAO and WorldFish Center, "Small-Scale Capture Fisheries: A Global Overview with Emphasis on Developing Countries," 2008, [http://pubs.worldfishcenter.org/resource\\_centre/Big\\_Numbers\\_Project\\_Preliminary\\_Report.pdf](http://pubs.worldfishcenter.org/resource_centre/Big_Numbers_Project_Preliminary_Report.pdf)

<sup>48</sup> FAO 2005-2015. World inventory of fisheries. Destructive fishing practices. Issues Fact Sheets. Text by S.M. Garcia. In: *FAO Fisheries and Aquaculture Department* [online]. Rome. Updated 27 May 2005. [Cited 16 November 2015]. <http://www.fao.org/fishery/topic/12353/en>

sustainably manage their natural resources, the tragedy of the commons will continue – even in places where regulations are in place.

39. With over 600 of the almost 800 reef-building coral species worldwide, the Coral Triangle area boasts the highest levels of marine biodiversity on earth. This area, which encompasses the waters of both Indonesia and the Philippines, has been noted as the global center of biodiversity for coral reef fish, mollusks, and crustaceans, and also contains 51 of the world’s 70 mangrove species and 23 of the 50 seagrass species. Unfortunately, human activities such as overfishing are threatening these critical habitats, jeopardizing their biological and economic value to society. Fifty percent of these areas are rated at a “high” or “very high” threat level.<sup>49</sup>

#### *Indonesia*

40. More than 39,500km<sup>2</sup> (3,950,000ha) – equal to 16 percent of the world’s coral reefs – are in Indonesia, and nearly 95 percent of those are threatened by local human activities, with more than 35 percent in the high or very high threat categories.<sup>50</sup> Indonesia also has the highest total fish and seafood consumption rate of any country in Southeast Asia, and the fifth highest in the world. This escalating demand for fish has led to an increase in cheap, efficient, and often destructive fishing practices, such as blast and poison fishing,<sup>51</sup> which destroy coral reefs both physically and indirectly through effects on ecosystem health. Due to the high dependence on coral reefs and low capacity to adapt to their loss, Indonesia is rated as having very high social and economic vulnerability to coral degradation and loss.<sup>52</sup>

#### *Philippines*

41. Approximately 22,500km<sup>2</sup> (2,250,000ha) – equal to 9 percent of the world’s total coral reefs – are found within the Philippines, making it the third-largest reef area in the world (after Australia and Indonesia).<sup>53</sup> Almost all reefs are threatened by local activities, and two-thirds are rated in the high or very high threat categories.<sup>54</sup> Many of those living in coastal areas derive their livelihoods, their nutrition, or both from fish harvested in coastal waters. With current harvest rates estimated at 30 percent higher than the maximum sustainable yield, all primary reef fish species are showing signs of overfishing. If these trends continue, they will likely lead to stock collapses, throwing ecosystem integrity and function further out of balance, threatening reef health, food security, livelihoods, and climate resilience for already vulnerable populations.<sup>55</sup>

#### Root Causes:

42. Social, institutional, environmental and economic factors contribute to the threats of overfishing, destructive fishing and changing conditions.

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<sup>49</sup> Burke L., Selig E., Spalding M., “Reefs at Risk Southeast Asia” World Resources Institute (2002): pg. 8.

<sup>50</sup> Burke L., Reyta K., Spalding M., Perry A. “Reefs at Risk Revisited in the Coral Triangle.” World Resources Institute (2012): pg. 26-27.

<sup>51</sup> *Ibid.*

<sup>52</sup> *Ibid.*

<sup>53</sup> Burke L., Reyta K., Spalding M., Perry A. “Reefs at Risk Revisited in the Coral Triangle.” World Resources Institute (2012): pg. 36.

<sup>54</sup> Burke L., Reyta K., Spalding M., Perry A. “Reefs at Risk Revisited in the Coral Triangle.” World Resources Institute (2012): pg. 39.

<sup>55</sup> Burke L., Reyta K., Spalding M., Perry A. “Reefs at Risk Revisited in the Coral Triangle.” World Resources Institute (2012): pg. 38.

#### *Social and institutional*

43. Many fishers in both Indonesia and the Philippines lack the management tools, resources and capacity to manage their fisheries sustainably. Additionally, social and legal tolerance for overfishing and destructive fishing practices in and around marine protected areas (MPAs) prevails. Rapid population growth, poor coastal planning and weak governance have subjected Philippine ecosystems and society to extraordinary pressures over the last 30 years. This is evident at the community level, where MPA governance and enforcement is inconsistent at best. In Indonesia, legal ambiguity around the country's many different fisheries governance archetypes makes it difficult to support even the communities who are ready to adopt more sustainable fisheries management practices. This lack of clarity and tenure contributes to fishers racing to capture as much of a declining resource as possible. The result has been a dramatic reduction in fish biomass and coral ecosystem integrity across the region.

#### *Environmental*

44. Declining and collapsing fish stocks are trends that are amplified in both Indonesia and the Philippines by environmental factors, especially the effects of climate change. The region has seen increased frequency and intensity of typhoons, rising sea-levels, increasing ocean temperature and acidification and salt water inundation. The resilience of coral reefs to withstand these events is reduced by short term threats, such as overfishing. Coastal communities become more vulnerable to rising sea levels and storm surges when natural barriers are destroyed. These compounding effects hinder the region's efforts to scale marine management initiatives and have the potential to unravel social and economic security.

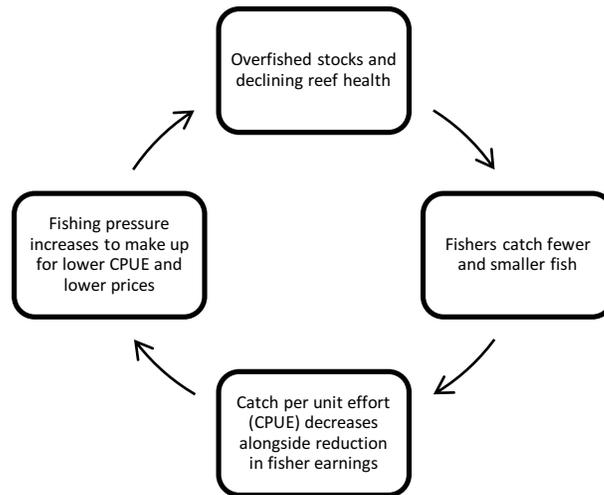
#### *Economic*

45. Finally, economic factors play a significant role in the continued occurrence of overfishing and destructive fishing practices. A high occurrence of poverty, especially amongst small-scale fishers, persists in Indonesia and the Philippines, where small-scale fishers and farmers are considered among the poorest of the poor.<sup>56</sup> Insufficient economic alternatives often mean that fishers lack the ability to support themselves or their families without maintaining or increasing their fishing effort. At the same time, income from fishing is unpredictable; uncoordinated and unregulated efforts can lead to market flooding, driving down prices, increasing waste, and contributing to ever-increasing fishing pressure. Because of these economic realities, fishers are often unable to consider the long-term benefits of conserving and sustainably using their marine resources because they must cope with short-term realities. A vicious cycle ensues.

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<sup>56</sup> Rural Poverty Portal, IFAD: <http://www.ruralpovertyportal.org/>

**Figure 2: Fishery cycle without sustainable management practices and incentives in place**



### E. Barriers to Addressing the Environmental Problems and Root Causes

46. As one of the key actions that could reduce the direct pressures on globally significant biodiversity and promote sustainable use (Strategic Goal B of the Aichi Biodiversity Targets), the GBO-4 recommends:
47. “Making greater use of innovative fisheries management systems, such as community co-management, that provide fishers and local communities with a greater stake in the long-term health of fish stocks combined with the elimination, phasing out or reform of subsidies that contribute to excess fishing capacity, phasing out destructive fishing practices and further developing marine protected area networks.”<sup>57</sup>
48. However, barriers exist today that make such systems difficult to implement in Indonesia and the Philippines. Some of these barriers – which are similar in both countries – include:
  - **Limited access to capital.** There is currently no other investment fund that explicitly targets businesses tied to SSF. Additionally, businesses in this sector are often small and may lack the management capacity to accept commercial financing, making efforts to scale their businesses nearly impossible. With greater access to capital – especially capital with sustainability conditions tied to it – businesses with a direct impact on SSF and coral reef ecosystems can scale up their operations and influence more fishers to improve their practices to meet sourcing requirements.
  - **Limited private sector capacity.** Businesses tied to SSF production may lack the capacity to identify opportunities, attract investments, work with local governments and communities, and compete on a domestic or international scale. Again, building the capacity of private sector actors who have a vested business interest in the sustainability of natural resources will enable them to have a greater impact on the fishers and communities from whom they source or employ.

<sup>57</sup> Global Biodiversity Outlook (GBO)-4, p.13: <https://www.cbd.int/gbo/gbo4/publication/gbo4-en-hr.pdf>

- Out-dated or non-functional fisheries handling or processing equipment. Many small-scale fishers lack adequate handling and processing infrastructure, including even the most basic equipment such as ice machines and refrigeration to preserve their catch. Processing locations with sufficient hygienic conditions to clean and prepare the product for transport are also lacking. As a result, many fishers still land their highly perishable catch on the shore with no cold storage to preserve product quality and shelf life. These practices contribute to large volumes of waste and lost value, driving fishers back into the vicious cycle of increased fishing pressure and decreased profits. With the ability to add more (and destroy less) value to their harvest, fishers are financially better able and incentivized to comply with fisheries management regulations that limit their fishing effort.
  - Fragmented supply chains. With a highly disaggregated catch, individuals and even whole communities lack sufficient volume to influence the market, generally forcing community fishers to become price takers in a fragmented and long chain of (often 4-5) intermediaries. Price markups from dockside to table can be as high as 1000 percent<sup>58</sup> due to the distance between SSF and larger markets, with fishers capturing almost none of the value. These intermediaries may add no incremental value addition beyond transport, typically also lack access to cold-chain infrastructure, and have low standards regarding product handling, hygiene, and legal compliance. As a result, waste and spoilage can be as high as 50 percent.<sup>59</sup> This does not include the value losses accruing from underutilization of products that may fetch high prices as fresh or packaged goods but are sold as low value commodities for lack of proper handling, cold storage, and food safety standards. As above, strengthened and streamlined supply chains allow fishers to capture more value and better position them to comply with regulations that limit their effort.
  - Lack of social and policy norms. This includes norms related to sustainable fishing practices, handling techniques, fisheries management capacity, and constituency for conservation. In many cases, there is also often inadequate legislation and/or legal authority granted to community fisheries management groups.<sup>60</sup> Issues of tenure insecurity also incentivize overfishing. Without such norms in place – both legally and within the social fabric of society – fishers’ destructive practices will continue.
49. Due to the diminished quality, opaque chain of custody, lack of infrastructure, and lack of reliable volumes, fish processing, even at a basic level, is uncommon, and little of the product is able to reach higher value buyers or export markets. Additionally, many products are barred from the necessary sustainability certifications demanded by North American and European retailers due to very limited (and sometimes no) available data regarding stock status or traceability systems to distinguish that the product was harvested by legal fishers and not mixed with illegal product. These barriers stand in the way of establishing financial and social incentives that enable the uptake of “innovative fisheries management systems” – such as community-led rights-based management – as recommended by the GBO-4.

<sup>58</sup> Encourage Capital, Bloomberg Philanthropies, and Rockefeller Foundation. *Investing for Sustainable Global Fisheries*. [http://www.investinibrantocceans.org/wp-content/uploads/documents/full\\_report\\_10.01\\_rev1.pdf](http://www.investinibrantocceans.org/wp-content/uploads/documents/full_report_10.01_rev1.pdf)

<sup>59</sup> Marine Change. *Karimunjawa and Kemujan Village Investment Opportunities*. Report to Rare, August 2015.

<sup>60</sup> The Meloy Fund will directly address barriers #1-4; Rare’s Fish Forever program is addressing the issues encompassed within barrier #5, so the two projects will be complementary of each other.

## F. Current Baseline (Business-as-Usual Scenario) / Future Scenarios without the Project

50. Coral reef monitoring between 2004 and 2008 continued to show an overall decline in the condition of coral reefs in Indonesia.<sup>61</sup> While the same study revealed a slight improvement in the condition of coral reefs in the Philippines, rapid population growth in the region continues at a pace that is unlikely to slow.<sup>62</sup> With this population growth comes increased coastal development and an increase in dependency on coastal resources – pressures to which both Indonesia and the Philippines are particularly vulnerable. As these pressures increase, the condition of coral reefs in the Philippines will be unlikely to sustain even the slight improvements documented prior to 2008, and Indonesia’s coral reefs will continue to decline.
51. If coral reefs in Indonesia and the Philippines continue to be threatened at the current extent, millions of livelihoods will be at risk. In Southeast Asia, more than 60 percent of the population lives within 60km of the coast, and many of these people rely on coastal resources, especially coral reefs.<sup>63</sup> In the Philippines, 50 percent of municipalities are coastal, and 62 percent of the population lives in the “coastal zone”, defined as up to one km inland from shore at high tide.<sup>64</sup> Eighty-four percent of Filipino fishers work within municipal waters where critical coral reef habitats and biodiversity are most prevalent.<sup>65</sup> Similarly in Indonesia, 60 percent of Indonesia’s fishers are small-scale, and 85 percent of their catch is used for domestic human consumption.<sup>66</sup> Continued degradation of the coral reefs that sustain these coastal fisheries in the Philippines and Indonesia will mean threatened livelihoods and nutrition for substantial portions of the population in addition to its effects on biodiversity and ecosystem health.
52. The effects of climate change compound pressures on coral reefs. According to the Global Coral Reef Monitoring Network (GCRMN) and International Coral Reef Initiative (ICRI), about 19 percent of the world’s coral reefs have already effectively been destroyed by human activities (including overfishing) and climate change,<sup>67</sup> and in the Philippines as much as 75 percent of reefs have been degraded by human activities.<sup>68</sup> As carbon emissions continue to rise, changing climate conditions lead to rising ocean temperatures, ocean acidification and coral bleaching, and increasing frequency and intensity of tropical storms, all of which threaten to severely damage or cause extinction of coral reefs. Among the recommendations cited by GCRMN and ICRI to avoid permanent damage to coral reefs is to better control destructive human practices, such as unsustainable fishing, to improve the resilience of coral reefs to resist and recover from climate-related pressures.

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<sup>61</sup> Tun K., et al. Status of coral reefs of the world: 2008. Chapter 9: Status of coral reefs in Southeast Asia. Downloaded from <http://coralreef.nus.edu.sg/publications/Tun2008GCRMN.pdf>.

<sup>62</sup> Ibid. <http://coralreef.nus.edu.sg/publications/Tun2008GCRMN.pdf>.

<sup>63</sup> Ibid. <http://coralreef.nus.edu.sg/publications/Tun2008GCRMN.pdf>.

<sup>64</sup> Ibid. [http://oneocean.org/flash/the\\_philippine\\_seas.html](http://oneocean.org/flash/the_philippine_seas.html).

<sup>65</sup> Philippines Census of Agriculture and Fisheries (2002).

<sup>66</sup> FAO and WorldFish Center, “Small-Scale Capture Fisheries: A Global Overview with Emphasis on Developing Countries,” 2008, [http://pubs.worldfishcenter.org/resource\\_centre/Big\\_Numbers\\_Project\\_Preliminary\\_Report.pdf](http://pubs.worldfishcenter.org/resource_centre/Big_Numbers_Project_Preliminary_Report.pdf)

<sup>67</sup> Global Coral Reef Monitoring Network and International Coral Reef Initiative. *Climate change and coral reefs: Consequences of inaction*. Downloaded from [http://www.icriforum.org/sites/default/files/GCRMN\\_Climate\\_Change.pdf](http://www.icriforum.org/sites/default/files/GCRMN_Climate_Change.pdf).

<sup>68</sup> Managing Philippine coasts and seas: understanding the challenge. *Extracted and adapted from “Philippine Coastal Management Guidebook Series No. 1: Coastal Management Orientation and Overview,” published in 2001 by DENR, DA-BFAR and DILG through the Coastal Resource Management Project of DENR and USAID*. Downloaded from [http://oneocean.org/flash/the\\_philippine\\_seas.html](http://oneocean.org/flash/the_philippine_seas.html)

53. What is needed is improved management of globally significant coral reef ecosystems. Despite many current and past investments by governments, multilaterals, and private donors, a missing element has been sufficient market-based incentive systems to motivate the transition to better management. Addressing the financial and market barriers to sustainable management of coral reef systems will make the difference between business as usual and the ability to meet targets for improved management of coral reef ecosystems.

#### **G. Alternatives to the Business-as-Usual Scenario**

54. The following options for changing the business-as-usual scenario were assessed by Rare when deciding how to best address the issues currently facing SSF in Indonesia and the Philippines.
- Option A – Insurance: The legal requirements for providing insurance in the countries in which Rare works are often very high. In SSFs, insurance is often led by government-supported actors with strong operational backbones.
  - Option B – Guarantees: After a high-level analysis of the market, Rare determined that there were not enough transactions in SSFs that it could catalyze through guaranties.
  - Option C – Trust Fund: Setting up a trust fund would have limited Rare’s ability to deploy debt and equity financing and would have forced the organization to focus on a much narrower project area.
  - Option D – Impact Investment Fund: Establishing an impact investment fund devoted to providing debt and equity capital into scalable enterprises could play a key role in incentivizing sustainably managed community SSF, contributing to the maintained integrity and functioning of coral reef ecosystems in Indonesia and the Philippines. The investments of this fund could also be highly leveraged by Rare’s local presence and accumulated technical expertise, and would create strong financial, social and environmental returns for its shareholders, de-risking community fisheries as a viable market for later stage commercial investment. The Meloy Fund will seek investments whose businesses directly impact coral reef ecosystems of global importance.
55. With regards to Options A-C, ultimately Rare decided that these were not as well suited to achieve the desired long-term impact targets or synergies with the Fish Forever initiative. However, Rare felt that Option D offered the opportunity to addresses the key market and financial barriers described in Section E above, filling an important gap and building upon a strong foundation of conservation and management work already underway in the region. By addressing these barriers, the Meloy Fund will help to build an incentive system that accelerates the adoption of rights-based management and fisheries management tools that reduce the pressures of overfishing on coral reef ecosystems, leading to an alternative scenario where 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems are under improved sustainable management.
56. Defining characteristics of the proposed impact investment fund:
- The Meloy Fund is the first impact fund focused entirely on community SSF in the developing tropics, uniquely ensuring that:
  - All investments are tied directly to sustainable fisheries management in coral reef ecosystems;
  - Community attitudes and behaviors are motivated by both an increase in conservation ethic and financial opportunity; and
  - A portion of returns are allocated to local fishers.

57. The Meloy Fund will also play an important role in de-risking a historically undervalued and underappreciated SSFs sector through a portfolio that is:
- Multi-local: Small-scale, highly feasible, franchisable and replicable (nationally and globally).
  - Direct in Impact: Directly reduce negative pressure on the environment and contribute to improvements in coral reef health and fisher livelihoods.
  - Aligned: Ensure supply chain integrity and that all players are aligned via mission and financial incentives. Further, we ensure a portion of the benefits accrue to fishers and the local community in the long term.
  - Leveraged: Complemented by a large body of work by Rare (i.e. Fish Forever), and through that program aligned with local and national government priorities that ultimately ensure the provision of sustainable fisheries management, related policies and lasting community engagement.

#### **H. Cost Effectiveness Analysis of Chosen Alternative**

58. Successful management of coral reef fisheries can directly deliver social and economic benefits such as food security, increased profits, and sustainable livelihoods to fisheries stakeholders. Managing coral reef fisheries sustainably also directly contributes to the overall health of the coral reef, which then also helps to maintain ecosystem services such as tourism, shoreline protection, and other cultural values.
59. Fish Forever is founded on the understanding that overfishing can be addressed through the primary behavior change of empowering fishers to practice more sustainable fisheries management by participating in, developing and complying with managed access regimes (i.e. TURF + reserves).
60. Transitioning to more sustainable near-shore fisheries has the potential to support the livelihoods and wellbeing of fishing communities, dependent on the health of their fisheries, to stabilize and eventually increase protein supply for poor and vulnerable communities and to restore and sustain critical ecosystems. However, a major barrier to the adoption of more sustainable fisheries management practices is fishers' reluctance to give up a portion of their livelihood and/or income derived from fishing while the fishery is recovering – as there may be a temporary decrease in income between the period in which the management efforts are enforced, and when local fishers begin to accrue the positive effects of their well-managed fishery. Therefore, improving income opportunities through enterprise and market interventions can help reduce the 'cost of transition' and incentivize fishers to support improved fisheries management practices through a perceived positive "benefits exchange".
61. As such, Rare believes the most cost effective and sustainable alternative to the BAU scenario is through the establishment of an impact investment fund. The Meloy Fund will invest in enterprises that offset fishing pressure and/or improve margins for local fishers who comply with management regulations. In so doing, the Fund will drive economic growth in the small-scale fishing sector in ways that allow fishers to maintain or increase income levels while reducing fishing pressure. In this way, small-scale fishers – often the poorest and most climate-vulnerable citizens – are both direct beneficiaries of the Fund and are incentivized to fish sustainably, creating indirect benefits for the millions of others who rely on long-term viability of local fish stocks for nutrition and livelihood.

62. Unlike the other alternatives listed in Section G (see above), Rare believes that the inherent synergetic relationship between the Fund and Fish Forever (see details on Component 2 in paragraphs 114-147 below) creates both a cost effective and sustainable feedback loop to help local communities achieve long-term sustainability within their fisheries.

## SECTION 3: PROJECT STRATEGY

### A. Objective, Components, Expected Outcomes, Targets, and Outputs

#### Project Objective:

64. To improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes through capital investments in commercially viable enterprises.

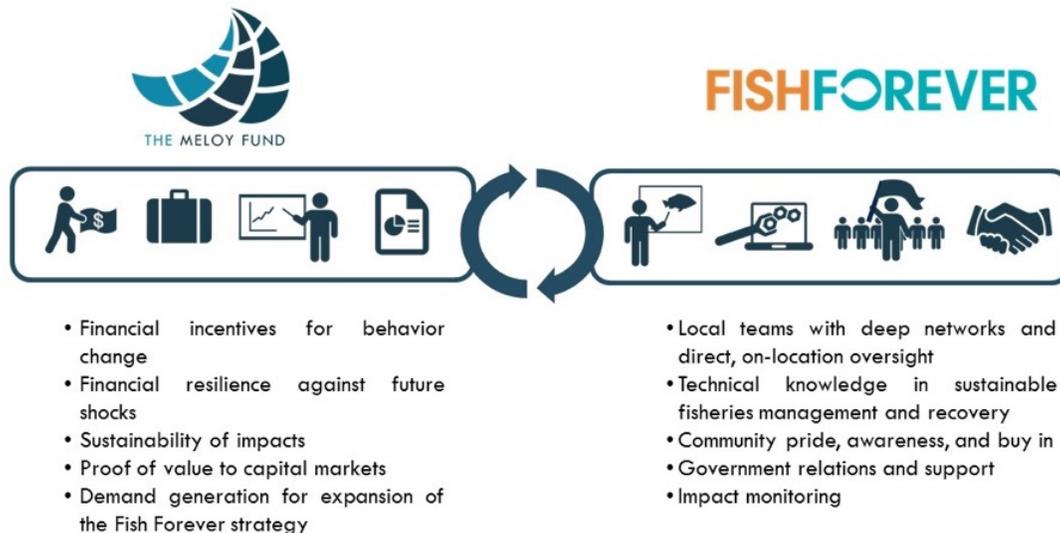
#### Project Components:

65. The Meloy Fund and Fish Forever’s strategies are closely intertwined, such that both are included as components of the proposed project (although no financial resources are being requested of the GEF in direct support of Component 2 under this non-grant instrument). The two project components are as follows:

- 1) The Meloy Fund for Sustainable Small-Scale Fisheries (USD 6 million requested from GEF); and
- 2) Fisheries technical assistance (TA) through Fish Forever (USD 0 requested from GEF)

66. The two project components complement each other to ensure that investments made through the Meloy Fund deliver the desired global environmental benefits. The targeted area of impact for the project is 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems in Indonesia and the Philippines (see Appendix I for full Results Framework). Under this project, coral reef ecosystems refer to areas of seascape that include coral cover and surrounding management areas (including seagrass beds, mangroves and oceanic) that directly and indirectly impact coral health and integrity.

**Figure 3: Relationship between the Meloy Fund, managed by the GP, and Rare, through Fish Forever**



#### **Component 1: The Meloy Fund for Sustainable Small-Scale Fisheries (SSFs)**

67. Under this component, an investment vehicle that seeks to incentivize the rapid adoption of sustainable fisheries behaviors by investing in fishing and seafood-related enterprises in Indonesia

and the Philippines will be rolled out. The investment objective of the established Fund will be to generate measurable environmental and social outcomes and provide reasonable financial returns for investors by making debt and equity investments in fishing and seafood-related enterprises at different stages of growth that have operations in Indonesia and the Philippines. Fund investments are intended to lead to better management and protection of small-scale fisheries and the associated ecosystems, while providing small-scale fishers the ability to secure more sustainable livelihoods.

Portfolio Impact

68. The Meloy Fund believes that identifying companies that have strong environmental and social considerations as core identifying companies that have strong environmental and social considerations as core to their business strategy will consequently result in longer term financial returns that are comparable or better than similar companies which do not take these factors into account. Therefore, the Meloy Fund will holistically evaluate potential investments using the criteria outlined in the table below, listed in no particular order or implied weightings, along with other criteria to be determined at the discretion of the Fund’s GP.
69. Each investment opportunity will be evaluated with the intention that each investment generates measurable environmental and social outcomes and provides reasonable financial returns for investors. The GP intends that investments will further support the development of the private sector fisheries industry, leading to stronger, sustainable seafood businesses, better management and protection of formerly underappreciated and undervalued marine assets, and offers an opportunity for local fishers to secure more sustainable livelihoods. Table 1, below, outlines the targets to achieve over the Fund Term.

**Table 1: Fund Portfolio Success Metrics**

Meloy Fund Portfolio Success Metrics		
Impact Areas	Description	Target
<b>Environmental &amp; Social Impact</b>	Development of environmentally and socially sustainable fisheries.	<u>Environmental Targets</u> <ul style="list-style-type: none"> <li>1.2 million hectares (12,000km<sup>2</sup>): coral reef ecosystems under improved management.</li> <li>Each Fund Investment, as relevant, sources seafood from at least one Fishery Improvement Project (FIP).</li> </ul> <u>Social Targets</u> <ul style="list-style-type: none"> <li>100,000: fisher household members positively impacted</li> <li>USD 20 million: Aggregate annual purchases from fishers</li> </ul>
<b>Private Sector Development</b>	Support the growth and development of sustainable seafood businesses.	<ul style="list-style-type: none"> <li>USD 100 million: Aggregate enterprise annual revenues supporting sustainable SSFs.</li> </ul>
<b>Financial Returns</b>	Invest in enterprises that seek to provide a reasonable rate of return, considering the triple-bottom line Fund objectives.	<ul style="list-style-type: none"> <li>6 percent USD: Fund Net Internal Rate of Return (IRR) (including an intended 50 percent guarantee on principal on all debt investments).</li> </ul>

70. In addition to the environmental and social impact metrics above, the Fund is also expected to generate other environmental and social impacts. These impacts may include improved ecosystem health and biodiversity, key species protection, and enhanced community-level climate change adaptation and mitigation strategies.

#### Investment Approach

71. The Fund has a triple-bottom line approach to returns. The primary objective of all Fund Investments is to generate measurable environmental and social outcomes, while delivering reasonable financial returns. Given the Fund's intent to optimize environmental and social impact alongside reasonable financial returns, the fund will use its best efforts to generate financial returns commensurate with investment risk. A secondary objective is to demonstrate the effectiveness of the investment of private capital as a catalyst to help SSFs achieve economic, social, and environmental sustainability.

#### Investment Strategy

72. To achieve sustainability in overfished environments, fishers need to reduce fishing effort in the short- to medium-term, such that fish stocks may recover. Beyond Rare's Fish Forever program facilitating the implementation of a governance regime that allows coastal communities to manage and make fishery management decisions in their long-term interests, an economically viable decrease in fishing requires that fishers receive more value from their seafood related activities. To enable this transition, two value creation strategies (that are not mutually exclusive) will be employed by the Fund:
  1. Community Margin: The Fund's investment program is intended to help fishers earn more from the fish they currently catch, by investing in companies concerned with improving efficiencies in supply chain, production, waste reduction, aggregation, and value-added processing in compliance with sustainable fisheries management regimes.
  2. Fishing Pressure Offset Strategy: To help fishers have alternative but complimentary income sources to facilitate stock recovery, the Fund may make investments in fishing-related activities, including sustainable aquaculture, providing alternative income sources for fishers and relieving fishing pressure while offering improved income opportunities for fishers, allowing stock recovery time without undue economic burden on fishers.

The key innovation in this strategy is the requirement that there be a direct link between the enterprise and a reduction in wild-caught fishing pressure. This mandates close coordination between fisheries management bodies and improvement programs (e.g. Fish Forever), and cutting-edge agreements to ensure the fishing community can finance its reduction in fishing pressure through participating in these alternative investments.

73. In addition to the above strategies, the Fund may pursue alternative strategies to financing fisheries recovery, including investing in companies developing, marketing, and utilizing related technology, ecotourism, green infrastructure, and climate smart investments, including infrastructure initiatives.
74. In conjunction with the value creation strategies above, executed in combination with Rare's Fish Forever program, the Meloy Fund has also developed Environmental and Social (E&S) Guidelines to ensure that for the Fund investees:

- Clear minimum standards for sourcing sustainable fish, or otherwise participating in the fishing supply chain, are agreed upon and monitored;
- General environmental and social minimums are met regarding the holistic impact of an investee’s operations;
- Impact targets related to the use of the investment and expectations of growth over time are agreed upon, which in some cases may inform financial rewards or penalties, and
- A comprehensive multi-stakeholder roadmap is produced and implemented to ensure fisheries recovery over time (via a Fishery Improvement Project or FIP).

75. The Meloy Fund value creation strategies and its E&S Guidelines will be jointly implemented in each of the fund’s investments to mitigate short term adverse impacts from local fishers while fish stocks recover.

Investment Criteria

76. The Fund will evaluate potential investments according to the following criteria: mission-fit; business; environmental and social impact; and financial. It is believed that identifying companies that have strong environmental and social considerations as core to their business strategy will consequently result in longer term financial returns that are comparable or better than similar companies which do not take these factors into account. Therefore, the GP will holistically evaluate potential investments using the criteria below, along with other criteria to be determined at the discretion of the GP.

**Table 2: Fund Investment Criteria**

Mission-Fit	Business
<ul style="list-style-type: none"> <li>• Alignment with the Fund’s objective (see paragraph 2 above) and “no-harm” principle (see E&amp;S Guidelines in Appendix V)</li> <li>• Management team committed to building strong and deep partnerships beyond standard borrower-lender/investor-investee relationship</li> <li>• Open to receiving support to improve core business areas such as financial management, corporate governance, operations, supply chain, and environmental and social impact</li> </ul>	<ul style="list-style-type: none"> <li>• Country focus: Indonesia and the Philippines</li> <li>• Sector focus: Community fisheries as a core part of business model</li> <li>• Strong and competent management team</li> <li>• Preference will be given to organizations/management teams with a high-quality track record, as determined by the GP</li> <li>• Strong connections with suppliers and buyers, as determined by the GP</li> </ul>
Environmental and Social Impact	Financial
<ul style="list-style-type: none"> <li>• Willing to play a lead role in the setting-up of FIPs</li> <li>• Direct impact on at least 500 fishers, potentially including paying above market price for fish</li> <li>• Direct impact on at least 50,000 hectares (500km<sup>2</sup>) of coastal habitat</li> </ul>	<ul style="list-style-type: none"> <li>• Business model that has demonstrated financial success, including meeting profit and revenue benchmarks, and which the company is seeking to scale</li> <li>• In the case of a loan, capacity to manage debt service, as well as an evaluation of the company’s credit rating</li> <li>• In the case of equity, potential exit scenarios</li> </ul>

### Due Diligence Process

77. The Meloy Fund will employ a rigorous investment process while simultaneously creating an environment that encourages fresh thinking and new ideas on identifying areas for value creation. Given the comparatively high risk of Meloy Fund investments and its search for good partners, the due diligence will be extensive and is expected to take 4-6 months, depending on the information available from the potential borrower.
78. When considering the investment process the team will apply the following approach to ensure thorough scrutiny of a potential investment, and create an environment that solicits insights from the full team:
- Presentation of early stage opportunity to Fund Investment Management Committee (FIMC): The full investment team and the FIMC will meet every 2 weeks to examine and comment on early stage pipeline opportunities. Investment team members will prepare a summary of each investment opportunity and present to the FIMC and to the rest of the team. This summary will include a brief overview of the company's business model, recent company financials, examination of reputational risks to Rare, and proposed high level Term Sheet. The FIMC will approve or reject the investment for due diligence, and give feedback to the investment team about key risk issues to be prioritized in the Due Diligence. At this stage, the FIMC may seek guidance from the Eco-Impact Investors Circle<sup>69</sup>.
  - Development of a Mandate Letter to be signed by potential investee: The investment team will draft a Mandate Letter which inform the potential investee that it has been approved for Due Diligence by the Meloy Fund, it will provide an overview of the next steps, and will include a high-level Term Sheet. Ideally the Mandate Letter will also include a No Shop clause for 3-6 months.
  - Due Diligence: The Meloy Fund investment team, with technical inputs provided through Fish Forever, will conduct due diligence on the potential investee. At its minimum, the due diligence will cover the following aspects: a) senior management and shareholders; b) market analysis and competition; c) company operations and supply chain; d) financial analysis and projections; e) legal due diligence; f) proposed project analysis; and g) environmental and social impact. The investment team will also develop a high-level TA plan explaining how the Meloy Fund will partner with the investee to mitigate any investment risks and maximize the company's environmental and social impact, especially that related to fisheries sustainability. The FIMC will provide regular strategic guidance in this process and may seek the advice of the Eco-Impact Investors Circle.
  - Presentation of full due diligence to FIMC: Once the due diligence is complete, the investment team will present its findings, TA plan, and a proposed detailed Term Sheet to the FIMC. The FIMC will approve or reject the investment, or request further due diligence to be conducted.
  - Development and signature of detailed term sheet, investment legal documentation and compilation of conditions precedent to disbursement: The investment team will finalize the detailed Term Sheet to be signed by the potential investee. The investment team will then liaise with local legal counsel for the development of investment legal documentation, which will then be signed by all parties. Once these documents have been signed, the investment team and the investee will compile conditions precedent to disbursement (including registration of potential Security Agreement with local authorities).

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<sup>69</sup> A group of experienced bankers, investment managers, hedge fund and private equity investors, entrepreneurs, and technical experts.

- Disbursement: The investment team will put together a disbursement memo that includes all conditions precedent. This memo will be approved and signed by the Meloy Fund’s Managing Director, Deputy Managing Director, and Rare’s Chief Financial Officer. Rare’s finance team will process the disbursement, and manage the accounting with the investment team’s support.

#### Investment Process and Structure

79. The Fund intends to make investments in medium-sized enterprises focusing on those operating within the wild-caught seafood and mariculture sectors in Indonesia and the Philippines. It will seek to invest in enterprises that are open to developing close partnerships to help mitigate financial risks, while generating environmental and social impact.
80. No grants will be provided through the fund. Funds will be deployed to finance the scaling up of enterprises and to move towards environmentally responsible product lines, with a significant portion of invested capital to be used for the acquisition or upgrading of fixed assets. Enterprises in which the Fund may invest include, but are not limited to, aggregators, processors, sustainable aquaculture farms, brands, and cooperatives. The Meloy Fund will also provide need-based business development support in the form of mentoring, operations and product technical support, financial management, corporate governance, etc. to its investees to support their growth and development, as well as to maximize potential social and environmental impacts. Please see Output 1.1.3 for further details on business development support to portfolio companies.
81. The funding terms (to Investees) are as follows:
  - Use of funds: Financing the scaling up of the business, especially the acquisition of fixed assets.
  - Investment size: USD 5 hundred-thousand – 2 million, with most investments estimated to be around USD 1,000,000. No single portfolio investment will be more than USD 6 million without the prior approval of the Fund’s Limited Partner Advisory Committee (LPAC).
  - Investment tenor: 5-7 years
  - Seniority: Whenever possible, fund investments will be senior to other investee liabilities.
  - Covenants: Investments will include financial as well as social and environmental covenants to ensure alignment with the Meloy Fund goals as well as compliance with agreed upon strategies and terms.
  - Interest/Expected returns: Expected returns will be between 10 percent-20 percent IRR USD.
  - Grace period and repayment: The Fund will structure each loan investment to adjust to the company’s cash flow, and may consider grace period on principal investment of up to two years.
  - Interest payment: On a quarterly basis. No grace period will typically be offered.
  - Disbursement: Investments are projected to be disbursed in 1-4 tranches tied to the investee’s growth and development.
  - Origination fee: The fund may charge an origination fee of up to 1 percent of committed capital.
  - Reporting: Investee will provide financial, operational, and social and environmental reports on a regular (typically quarterly) basis. Investee will consent to an annual social and environmental audit (please see E&S Guidelines in Appendix V).
82. Investments may be structured as straight debt, mezzanine finance (which includes royalty based debt, convertible debt, and debt plus warrants, preferred equity) and equity. The Fund intends to have a balanced portfolio with straight debt accounting for roughly 35 percent of the total investment portfolio, mezzanine finance 35 percent of the portfolio, and equity 30 percent of the portfolio, though actual ratios at any time of the Fund’s lifecycle may vary. The Meloy Fund may also

provide working capital financing to support long-term investments or as trial loans before the long-term funding is disbursed.

83. Targeted rates of return are based on an analysis of non-concessionary commercial and small and medium enterprise (SME) lending rates in both Indonesia and the Philippines, with a premium added for equity investments (note there are few, if any comps to examine for equity in our sector). That said, the Meloy Fund fills a needed gap for the more “unbankable” SMEs, which neither have the collateral nor the track record to receive even local currency-based commercial loans. Because our investments are longer term, to riskier borrowers, and, where possible, denominated in USD, our rates are somewhat higher than we assume the local equivalent would be. A key objective of the Meloy Fund is to address this gap in capital availability to be able to attract larger inflows of market-rate capital over time.
84. The Fund structure relevant to investors is as follows:
- Fund size: USD 18 – 20 million
  - Term: Ten years with the potential for two one-year extensions subject to investor approval.
  - Investment period: Five years, followed by two possible extensions of one year each (i.e. 60-month project investment period over a 120-month term).
  - Distributions to Fund investors: The current financial model assumes one payment at the end of the life of the fund (10 years). After the investment period, the GP may consider potential partial distribution of proceeds.
  - Management Fees: As the Fund’s GP, Rare will receive 2.5 percent in management fees on a quarterly basis, including a 1 percent of the aggregate amount of interests; and 1.5 percent of funds invested in portfolio investments (no step-down upon repayment).
  - Operating Expense Refund: Due to the size of the Fund and its impact objectives, over the Fund term, the GP anticipates incurring operating expenses estimated to be up to USD 1 million adjusted for inflation, in excess of management fees received by the GP. The Fund will reimburse the GP up to this amount once the Fund term is over.
  - Hurdle rate: 5 percent.
  - Returns and carry: The Meloy Fund returns will be allocated 80 percent to the Limited Partners (LPs) in proportion to their respective contributions, and 20 percent to the GP, with the latter share being paid in a waterfall approach after the preferred return via a 100 percent catch-up provision.
85. As a Project Agency of the GEF, CI will act as a Limited Partner (LP) of the Fund. GEF funds will be committed in parallel with the Fund’s co-investors. All co-investors are expected to be equity investors in the Fund on a pari-passu basis. Any returns generated by the Fund will be disbursed to CI who will reflow the funds to the GEF Trustee.
86. The Fund’s return assumptions (to Investors) are as follows:  
The net Internal IRR of the Fund is projected to be 6.4 percent. However, the GEF’s net IRR is projected to be approximately 5.1 percent as the GEF will cover the costs of the GEF Evaluations<sup>70</sup> as well as the full costs (fees)<sup>71</sup> of the partial debt portfolio guarantee, thus helping catalyze additional Fund investors. The terms of the guarantee, which are currently being negotiated, will cover 50

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<sup>70</sup> Approximately USD 60,0000

<sup>71</sup> Fees associated with the guarantee are estimated to be at most: 1 percent origination fee; and 1 percent utilization fee. The terms of the guarantee are in the final stages of negotiation, so the associated fees may be lower.

percent of debt investment losses of the Fund's LPs, excluding debt investment losses realized by the GEF.

87. At the end of the 10-year life of the fund and after withdrawing management fees, the Fund is expected to return capital in the following order:
- First, 100 percent to all LPs in proportion to their respective capital contributions until each LP has received distributions equal in the aggregate to that LP's capital commitment made to date;
  - Second, up to USD 1 million (plus interest as correspondingly paid to Rare) will be distributed to the GP to reimburse the GP for any Operating Expenses in excess of the management fee<sup>72</sup>;
  - Third, 100 percent to all LPs until they have received cumulative distributions that represent a 5 percent "hurdle rate", defined as a cumulative compounded per annum rate of return (compounded annually) on their capital contributions (calculated from the dates the relevant capital contributions were made until the dates of the applicable distributions);
  - Fourth, 100 percent to the GP until the GP has received aggregate distributions equal to 20 percent of the sum of the cumulative distributions made to the LPs (up to the 5 percent hurdle as defined above);
  - Fifth, pro rata, (a) 80 percent to all LPs, in proportion to their respective contributions, and (b) 20 percent to the GP.
88. This indicative arrangement for financial returns is depicted in Figure 9: Projected Meloy Fund Waterfall (see page 89).

#### Investment Valuation Policy

89. The Fund has implemented a rigorous but sensible and context-dependent approach for valuation. The methods the fund will employ to assess the valuation of the portfolio include discounting future cash flows for pure common equity, employing an impairment appraisal for loans, and likely a combination of these approaches for quasi-equity. To the extent that data is available for meaningful comparables, the Fund would use those as well.
90. The impairment appraisal for investments will be guided by provisions based on the financial risk categorization of the investments. Risk of all Meloy Fund investments will be categorized based on the following definitions:
- High: investment has a higher than average financial risk relative to other fund investments
  - Medium: investment has an average financial risk relative to other fund investments
  - Low: investment has a below average financial risk relative to other fund investments
91. The following areas should be considered by each investment team to guide this categorization:
- Repayment history: Investee's track record of satisfying repayment requirements for the fund and other external investors
  - Financial performance: Assessment of key financial indicators to determine if financial performance is improving, deteriorating, or remaining flat since the fund's initial investment.
  - Macro-economic and industry context: Major changes in macro-economic, political and social context of country in which business operates.
  - Investment structure and inclusion of guarantees and other mitigating investment mechanisms.

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<sup>72</sup> Due to the size of the Fund and its impact objectives, the General Partner anticipates incurring expenses for managing the business and affairs of the fund in excess of management fees.

92. Depending on the financial risk categorization the following additional provisions would be required over our standard loan loss reserve:
- High: 10 percent provision over total outstanding amount
  - Medium: 5 percent over total outstanding amount
  - Low: 0 percent over total outstanding amount
93. It is important to note that this methodology is meant as a guide for general provisioning. Additional company-specific provisions may be taken on a case by case basis.

Component 1: Outcomes, outputs, baselines and targets:

94. Through the activities described above, one main Outcome and three Outputs are expected from Component 1.

Outcome 1.1:

95. The Meloy Fund will result in an *increase in the area of coral reef ecosystems in Indonesia and the Philippines under improved sustainable management, through financial investments that incentivize the adoption of sustainable rights-based fisheries management (RBFM) practices that include protection for critical habitats.*
96. Progress toward Outcome 1.1 will be measured by the number of hectares of coral reef ecosystems under improved management through financial incentives offered through Meloy Fund investments (Target: 1.2 million hectares), by the number of investments made through the Meloy Fund, and by the average percent increment in profit per unit effort (PPUE) at sites of investment that overlap with Fish Forever sites. This outcome will be measured through self-reporting by portfolio companies, as well as through TA provided by Fish Forever<sup>73</sup>. This target assumes that each fund investment will likely impact multiple sites. The target will be achieved through careful structuring of the Fund, including its investment strategies and selection criteria.
97. Using data available from current Fish Forever sites - Indonesia (12 sites) and the Philippines (12 sites), a baseline of zero (0) hectares of coral reef ecosystem have received financial investments through the Meloy Fund to incentivize the adoption of sustainable rights-based fisheries practices within the community fishery.

Outputs:

98. In achieving the sole Outcome of Component 1, the Meloy Fund anticipates producing the following three Outputs:

Output 1.1.1:

*Investments in 12-18 ventures in Indonesia and the Philippines that increase the potential earnings of small-scale fishing communities, thereby incentivizing their transition to and continued practice of sustainable fisheries management in targeted coral reef ecosystems successfully executed.*

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<sup>73</sup> Fish Forever will provide monitoring TA at sites of investment that overlap with Fish Forever sites.

99. The Meloy Fund will seek to form strong partnerships with its investees by providing a package of long-term financing and business development support to help these mission-aligned businesses expand and strengthen their operations, and in turn provide financial incentives for local fishing communities. These incentives then help fishers deal with the cost of transition to sustainable behaviors under a Fish Forever type management regime.
100. During the project development phase, the Meloy Fund has conducted preliminary pipeline development, resulting in initial conversations with approximately 50 relevant businesses, identifying investment opportunities of nearly USD 10 million in Indonesia and the Philippines. Potential investments include domestic and multinational enterprises, all of which will either expand or develop new product lines to benefit local fishers and their communities, while at the same time shifting towards greater environmental responsibility.
101. Furthermore, potential investments may be generally categorized as follows, with the caveat that potential investments may not fit squarely into either category:
- Investment-ready (estimated to be 50 percent-60 percent of the Fund's total portfolio): Investment-ready opportunities reflect a business model that the Meloy Fund reasonably believes to be already at or close to break-even or better, and are aiming to grow utilizing external capital. These businesses should have an experienced management team and strong relationships in their relevant sub-sector.
  - Project Development (estimated to be 40 percent-50 percent of the Fund's total portfolio): Project Development opportunities involve the Fund acting as a sponsor to develop projects with partners in a site-based approach to a comprehensive investment and fisheries improvement model. These investments may require the creation of a new entity that will be launched through collaboration with private sector operators and co-investors, or further development of an existing early-stage entity requiring similar collaboration. It is intended to include a government or private sector off-taker for the majority of the new entity's sales, and may potentially take advantage of local guaranty facilities. These entities may be incubated in conjunction with Fish Forever sites and may access complimentary grant funding from Rare.
102. The Fund has identified potential investment opportunities of roughly USD 6 million across six investments, categorized as Investment Ready entities. The Meloy Fund has similarly identified potential investment opportunities of roughly USD 3.5 million across three investments, categorized as Project Development investments.
103. During the project development period, the Fund's first investment was also made. Although the Fund will not officially launch until later in 2017, this early investment opportunity arose during the deal pipeline building. The company is a fish aggregator, processor, importer and exporter in the Philippines. The five-year investment will help the company increase its processing capacity and logistics, as well as strengthen its internal systems, supporting growth in volume as well as the development of additional product lines to complement its current offering. As part of the agreement, the company plans to partner with Rare/Fish Forever, to source at least ten tons of sustainable seafood annually from local Filipino communities as part of jointly developed Fishery Improvement Projects (FIPs).

104. Deals meeting the Fund’s investment criteria defined above will ensure that there is a direct link between the Fund’s investments and the desired impact on globally significant marine habitats, so that Outcome and Target 1.1 are met. Progress towards Output 1.1.1 will be measured by the a) the number of investments in Indonesia and the Philippines made through the Meloy Fund; b) the number fishers and fish workers with increased earnings through investments; and c) the average percent increment in profit per unit effort (PPUE) where investments overlap with Fish Forever sites.
105. PPUE is a key measure for fisher profitability. It combines the often-used measure of fish stock productivity “catch per unit effort” - CPUE with the “business” dimension of a fishery, namely costs and prices. One of the key goals of the Meloy Fund is to stabilize or even increase profitability of fishing operations while simultaneously rebuilding overfished stocks. All Meloy Fund deals aim at delivering on this metric either by increasing the efficiency of their business (increase price of fish products and decrease cost of fishing) or through offsetting income opportunities that reduce the need to fish. If fishers can earn more by fishing less, the fund will be successful in reducing one of the greatest threats to coral reef biodiversity in Indonesia and the Philippines – overfishing.
106. Meloy Fund investments will increase PPUE through a variety of strategies that depend both on site characteristics and the investee. Identification of site-specific opportunities will be supported by Rare’s “RAMO-tool” (Rapid Assessment of Markets Opportunities). This tool highlights the most promising interventions for a specific site to either increase prices, decrease costs or provide supplemental income opportunities. It is based on dozens of interviews with practitioners around the world who have successfully implemented markets-based initiatives in tropical SSFs. Access to the benefits of markets interventions are conditioned to the adherence of local fisheries management plans and to the Meloy Fund’s environmental and social standards.
107. Furthermore, to achieve this Output, the project development team has been working to develop a stable deal flow, and will continue to refine its pipeline throughout the investment period of the project. Based on Rare’s experience, deal flow tends to be limited in the SSF sector, because potential funders do not connect businesses with fisheries management, do not build alliances with existing businesses in the supply chain, and systematically undervalue SSF and their potential. Rare has accumulated deep technical expertise and local networks, which have helped the Meloy Fund to resolve these issues and build pipeline through the following channels:
- Local staff: Rare has staff permanently based in Indonesia and the Philippines under its Fish Forever program, and staff have developed strong relationships with key stakeholders of community fisheries, including public and private sector actors. Rare’s local staff have helped the Fund identify the most promising community fisheries and businesses with whom they work.
  - Technical expert network: Rare has invested heavily and developed strong in-house technical expertise on fisheries, as well as built strong external networks with government, think tanks, academia, other NGOs, etc.
  - Rare’s Eco-Impact Investor Circle, a group of experienced bankers, investment managers, hedge fund and private equity investors, entrepreneurs, and technical experts, may be invited to share expertise with the Fund Investment and Management Committee (FIMC) to support the GP in achieving its intended investment objectives.

The FIMC will seek Eco-Impact Investor Circle support at its sole discretion, as a group or from key individual members, in particular to vet potential portfolio investments at the pre-term sheet stage. Eco-Impact Investor Circle members will not be compensated for their advice and will not have decision-making authority over potential or executed investments.

- Conservation partners: Rare’s program delivery method is through partners, and as such has dozens of historical relationships with local and international NGOs, such as Conservation International (CI).
- Regional advisory bodies: To help facilitate community engagement and provide robust support for pipeline development and portfolio companies, the GP may develop regional advisory bodies in Indonesia and the Philippines.

Output 1.1.2:

108. *At least USD 5 million in financing to acquire or upgrade equipment and/or other assets that preserve or add value to fish and fish products along the supply chain invested in ventures that source from sustainably managed SSF in targeted coral reef ecosystems.*

109. Progress towards Output 1.1.2 will be measured by the amount of USD invested for ventures that source from sustainably managed SSFs to acquire or upgrade equipment and/or other assets that preserve or add value to fish and fish products along the supply chain. The Meloy Fund expects that at least one-fourth of its investments will be used to finance fixed assets. Most of these investments will fall into the *Community Margin* investment strategy (as outlined under paragraph 72) and will serve to upgrade supply chains, enabling fish products to reach higher value markets and return a greater share of the profits to upstream actors. This enhanced profit for fishers and suppliers – driven by businesses that meet the Meloy Fund’s social and environmental impact criteria and operate in areas of globally significant coral reef ecosystems – represents the type of economic incentive that will drive adoption of sustainable management.

Output 1.1.3:

110. *50,000 hours of mentoring and business development support provided to portfolio companies’ senior managers in financial and operational management to build capacity to scale competitive businesses that source from sustainably managed SSFs.*

111. This mentoring will be delivered in the form of one-to-one sessions between the Meloy Fund manager or other Rare staff (or third-party experts where necessary) and leaders of portfolio companies. As part of the due diligence and deal structuring processes, sessions will be designed to ensure that company leadership not only understands the terms and conditions of the loan, but is also fully equipped to accept the financing. Sessions will be customized based on each investee’s needs and could include (but is not limited to) support in corporate governance, financial management, or inventory management. In most cases, this support is expected to be delivered after the first tranche of the investment has already been deployed. Exceptionally and for organizations that hold special promise, business development support may be delivered before a deal is approved as part of the investee becoming “investment ready”.

112. The purpose of the mentoring and business development support provided by Meloy Fund staff (as well as Rare staff, and other NGO and government partnerships, and existing GEF and other multi-lateral-funded projects with which we can link up), is to help our investees deliver on the agreed upon uses of funds and their operational processes to manage the proceeds and repayment effectively. In addition, our multi-local approach gives us opportunities to share lessons learned across our investment portfolio, which in turn improves efficiencies and reduces costs, such as by creating negotiating power related to procurement. These interventions contribute to our long-term goal of demonstrating the value in these supply chains and in relevant investment opportunities, so as to de-risk future commercial investments and prepare investees to improve their credit for post-Meloy Fund expansion.
113. Progress towards Output 1.1.3 will be measured by the number of hours of mentoring and business development support provided to pipeline and portfolio companies. Business development services will include operational and sales support (including quality control, inventory management, operational efficiency, and customer management), financial management (setting-up financing information systems, proper accounting and budgeting, annual projections, and managing by numbers), and corporate governance (setting-up corporate checks and balances through boards), community representation, and senior management mentoring. The GP expects to cover the costs of these activities through its own resources with a portion of the costs intended to be covered by portfolio companies.

**Component 2: Fisheries technical assistance (TA) through Fish Forever**

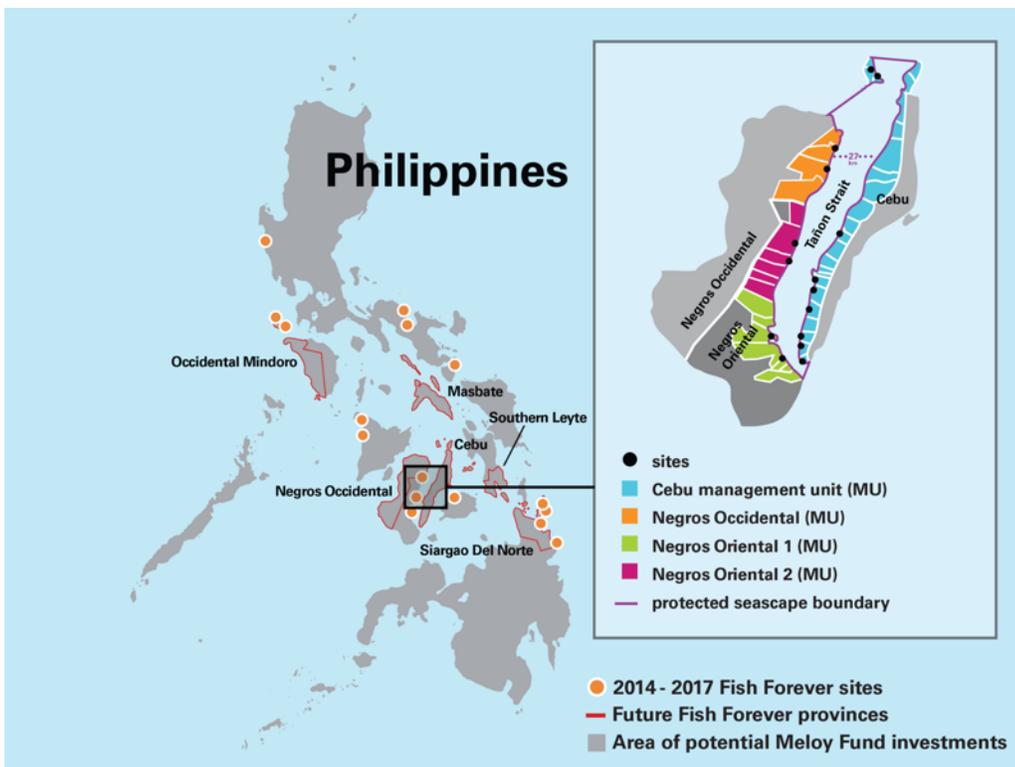
114. Component 2 is entirely co-financed through Rare’s Fish Forever initiative. The Meloy Fund’s competitive advantages include its explicit connection to Rare’s global Fish Forever TA program. Rare has deep and long-standing roots in both Indonesia and the Philippines and has developed strong relationships with communities and government bodies at local, municipal, regional, and national levels. The Meloy Fund will leverage these relationships and Rare’s ongoing local presence on the ground to build pipeline and mitigate investment risks.
115. At sites of investment where the Fish Forever program is not being implemented, the project will look to partner with relevant organizations/institutions for the delivery of fisheries TA within targeted communities. Although not every site where the Meloy Fund has an impact through its investments will be a Fish Forever program site (and vice versa), across the entire investment portfolio, the Fund will rely on technical inputs from Fish Forever’s global (US-based, centralized capacity) and in-country teams within Indonesia and the Philippines. This broadly includes Fish Forever’s technical knowledge on general fisheries including species biology and ecology, as well as Fish Forever’s country specific in-depth understanding of local fisheries (i.e. management regimes, species, ecosystems etc.) and networks/stakeholders (i.e. government, communities, businesses).
116. More specifically, the Fish Forever team will support Meloy Fund prospective and current investments in the following three ways:
1. Pre-Investment Due Diligence;
  2. Post-Investment Supervision; and
  3. Development and implementation of FIPs for targeted fisheries.

**Table 3: Fisheries TA provided to the Meloy Fund through Fish Forever**

Types of Fisheries TA provided	All Meloy Fund Investments	Meloy Fund sites of investment that overlap with Fish Forever sites
<b>Pre-investment due diligence support</b>	<ul style="list-style-type: none"> <li>• Environmental and social impact analysis of potential investments (as per E&amp;S Guidelines)</li> <li>• Tap into Fish Forever networks (government, communities, businesses) to assess potential investee commercial viability</li> </ul>	<ul style="list-style-type: none"> <li>• Data collected through Fish Forever will inform investment decisions and may provide site-level baseline information</li> </ul>
<b>Post-investment supervision</b>	<ul style="list-style-type: none"> <li>• Leverage Fish Forever network to supervise investee’s commercial performance</li> <li>• Provide fisheries technical advice</li> <li>• Potential E&amp;S audit to assess compliance with the E&amp;S Guidelines (as feasible – additional grant funds required)</li> </ul>	<ul style="list-style-type: none"> <li>• Supply chain development from Fish Forever sites to fund investees</li> <li>• Rigorous site-level monitoring (including: ecosystem health; hectares of coral coverage within both the TURF + reserve; biomass; catch reporting, etc.)</li> </ul>
<b>FIP development and implementation</b>	<ul style="list-style-type: none"> <li>• Development and implementation of FIPs, which may cover some Fish Forever sites</li> </ul>	

117. As feasible, the Meloy Fund will target and encourage investments that will impact areas where Fish Forever is present (or where alumni Fish Forever sites exist) so that it can fully leverage the benefits of the TA and support provided through the Fish Forever team, as well as management improvements produced through the program, and so that the Fund’s investments directly benefit the fishers and communities complying with sustainable management of their fisheries.
  
118. Through Fish Forever, Rare is scaling up the solution of TURF + reserves in Indonesia and the Philippines. These countries were selected based upon each nation’s high level of marine biodiversity, important coral reef ecosystems and the dependence of coastal communities on their fisheries for food and livelihoods. The communities in which Fish Forever works have expressed a need and commitment to become part of the program. By placing local ownership of fisheries in fishers’ hands, Fish Forever facilitates the development of sustainable fisheries management and as a result, allows for the utilization of financial incentives to motivate the adoption of such sustainable behavior.
  
119. TURF + reserve systems provide local fishers with exclusive access to their fishing grounds coupled with no-take reserves that they agree to protect. Fish Forever builds community capacity to set up and manage both the fishing areas and the reserves, so that fishers can take advantage of the “spillover” effect from the reserves into the surrounding area. In addition to the tenure and security that rights-based management provides, the spillover of more and larger fish into the TURF-managed fishing area provides another incentive for fishers to manage their resources sustainably. Where there is site overlap between the Meloy Fund investments and Fish Forever sites, the Fund will add a much-needed set of economic incentives.

**Figure 4: Area of Potential Investment through the Meloy Fund and its overlap with Fish Forever’s areas of intervention in Indonesia and the Philippines**



Component 2: Outcomes, outputs, baselines and targets:

120. Through the activities described above, two Outcomes and six Outputs are expected from Component 2.

Outcome 2.1:

121. *The capacity of portfolio companies to deliver on the Fund's environmental and social impact targets improved through fisheries TA provided by Fish Forever.*

122. Progress toward Outcome 2.1 will be measured by the percentage of projected E&S impact targets achieved by the portfolio companies. These include:

*Environmental Targets:*

- a) 1.2 million hectares of coral reef ecosystems under improved management (Target 1.1. under Component 1)

*Social Targets:*

- b) 100,000 fisher household members positively impacted  
c) USD 20 million aggregate annual purchases from fishers

123. Given that the Fund's investment pipeline is still being developed, the baseline for this Outcome is not known at this stage, but will be established during the implementation phase.

Outputs:

124. In achieving Outcome 2.1, the Meloy Fund anticipates producing the following three Outputs:

Output 2.1.1

125. *Pre-investment due diligence conducted to assess the Environmental and Social (E&S) impact on SSFs of potential portfolio companies and their ability to meet the minimum E&S standards of the Fund.*

126. This is a process that will be undertaken for all potential portfolio companies before any funding is approved and disbursed to the companies. Given its fisheries expertise and large in-country networks, during the due diligence process the Fish Forever team will help the Fund to assess the environmental and social impact on SSF of potential portfolio companies and their ability to meet the minimum standards as outlined in the E&S Guidelines of the Fund (see Appendix V). Where there is site overlap between Meloy Fund investments and the Fish Forever program on-the-ground, data collected at Fish Forever sites (both alumni and future sites) will also help to inform investment decisions and may help provide important site-level baseline information.

127. For further details on the due diligence process please see paragraphs 77 and 78 above.

Output 2.1.2:

128. *Post-investment supervision provided to portfolio companies to ensure adherence to the Fund's E&S Guidelines.*

129. This is a process that will be undertaken for all companies after an investment is approved and disbursed by the Fund (noting that a single investment may have multiple sites of impact, which may or may not overlap with Fish Forever program sites). It will involve monitoring of the targeted area of impact through a combination of self-reporting (conducted by portfolio companies) and fisheries TA provided through Fish Forever.
- For all investments:
    - The Fish Forever team will provide technical input and supervision regarding the investees’ adherence to the Fund’s E&S Guidelines. All investees will be required to report on their progress against annual impact goals, typically on a quarterly basis, and will be subject to an E&S audit every three years (contingent on additional grant funding).
    - On an “as needed” basis, the Fish Forever team will provide technical advice and guidance to investees as to how they can improve adherence to the to the minimum standards as outlined in the E&S Guidelines.
  - For investments that specifically impact Fish Forever program sites:
    - Where there is site overlap between the area of investment impact from a Meloy Fund investment and the Fish Forever program on-the-ground, the project will additionally benefit from rigorous site-level monitoring as conducted by the Fish Forever field teams. This includes but is not limited to the monitoring of: ecosystem health; hectares of coral coverage within both the TURF + reserve; catch reporting; fish biomass; number of constituents reached through Rare’s Pride campaigns; shifts in community behaviors; TURF + reserve regulation violations; and profit per unit effort (PPUE). The rigorous monitoring as conducted through Fish Forever at the site-level will provide robust sampling from select sites within the Fund’s investment portfolio.

Output 2.1.3:

130. *Fishery Improvement Project (FIP) roadmaps jointly developed by portfolio companies, the Fund and Fish Forever for relevant investments<sup>74</sup>.*
131. This is a process that will be jointly undertaken with portfolio companies. As outlined in the E&S Guidelines (see Appendix V), as applicable for each of these investments, the Fund and Fish Forever will work with the portfolio company to secure additional grant funding to develop at least one FIP for key target species relevant to the targeted impact of the Meloy Fund’s investment, where relevant.
132. To develop a FIP, the Fund, Fish Forever and the portfolio company will jointly develop and implement a five-year FIP roadmap that will include annual milestones and impact goals, and builds on the portfolio company’s Meloy Fund E&S (fisheries) minimum standards<sup>75</sup>. The FIP roadmap will at least include the following core components: a) data collection; b) Marine Stewardship Council (MSC) assessment, or similar alternative<sup>76</sup>; c) stakeholder consultation and management; d) work-plan development and implementation; and e) public accountability.

<sup>74</sup> “Relevant Investments” refers to portfolio companies that are working directly within the seafood value-chain.

<sup>75</sup> For shorter investments, the Meloy Fund will seek to adjust sustainability goals within reasonable timeframes

<sup>76</sup> Generally, FIPs lead towards MSC certification but this is often too expensive or even unfeasible for tropical small-scale fisheries. As a result, the Meloy Fund and Rare are working with various parties to develop a relevant scheme that may be more applicable.

133. Through Fish Forever, Rare may act as the local project implementation partner for the FIP, supporting the implementation of policy and management reforms and facilitating the delivery of near-term financial and ecological gains to the participating local fishery communities.

Outcome 2.2:

134. *The integrity and functioning of targeted coral reef ecosystems maintained through the implementation of community rights-based management practices, as incentivized by Meloy Fund investments.*
135. Progress toward Outcome 2.2 will be rigorously measured at sites of overlap between the Fund and Fish Forever through technical support provided by Fish Forever. This includes monitoring the following:
- Percentage of live coral cover targeted TURF + reserves.
  - Total fish biomass within targeted TURF + reserves.
  - Average length of target species under TURF + reserve management.
136. Baseline information against these indicators will be collected once it is determined where Fund investments will overlap with Fish Forever sites.

Outputs:

137. In achieving Outcome 2.2 of Component 2, the Meloy Fund, in collaboration with Fish Forever, anticipates producing the following three Outputs:

Output 2.2.1:

138. *At least 36,000 constituents in coastal communities impacting priority marine ecosystems reached by Pride (behavior change) campaigns, which build constituencies for sustainable community rights-based fisheries management.*
139. Fish Forever’s model for influencing SSF management centers on the adoption of new behaviors and strategically developed incentives. Rare believes people change their behavior when they understand the benefits of a new behavior and when barriers to its adoption are removed. To do this, Rare uses a proven toolkit of social cohesion and community mobilization technologies. By partnering with local organizations and key stakeholders, Rare will implement comprehensive marketing campaigns, Pride campaigns, as a tool to inspire communities and regions to take pride in their natural resources. Pride sparks and builds social cohesion and community support for the adoption of more sustainable behaviors, while also accelerating and increasing the adoption of the most effective management solutions and facilitating the mainstreaming of national policies at the local level.
140. Given that one of the major barriers to adopting targeted behaviors is fishers’ reluctance to give up a portion of their livelihood and/or income derived from fishing while the fishery is recovering – as there may be a temporary decrease in income between the period in which the managed access area + reserve is enforced, and when local fishers begin to accrue the positive effects of their well-managed fishery – improving income opportunities through enterprise and market interventions will provide incentive for fishers to support managed

access through a perceived positive “benefits exchange”. The economic incentives and market development through Component 1 will help to ensure that targeted behavior changes are sustained. The specific behaviors targeted for adoption are decided at the local level and based on local context (e.g. respecting spatial zones, compliance with gear restrictions, catch limits, size limits or other regulations designed to reduce the threats of destructive and overfishing). Progress towards Output 2.2.1 will be measured by the number of constituents in coastal communities reached through Pride campaigns over the course of the project at Fish Forever sites that overlap with investments.

Output 2.2.2:

141. *Capacity and constituency amongst fishers and communities to support sustainable fishing practices within targeted coral reef ecosystems strengthened.*
142. The adoption of new behaviors is required for impactful and lasting on-the-ground results. Rare’s past-experience running more than 300 Pride demonstrates that its Pride campaigns result in statistically significant changes (i.e. ~15-20 percent shifts in knowledge, attitudes and practices related to responsible fishing, within targeted Fish Forever communities) in the adoption of target behaviors as compared with baseline measures. Fish Forever believes that the threat of overfishing can be addressed through the primary behavior change of having fishers practice more sustainable fisheries management by participating in and complying with the rules of TURF + reserve areas. By transferring proven social-science based behavior adoption tools to local partners, Rare has been able to successfully promote shifts in social norms around the sustainable management of fishery resources.
143. Rare will begin standardizing the monitoring of 1) fisher registration, 2) boat registration, and 3) fish catch reporting, at all its Fish Forever sites globally. The Fish Forever program in Indonesia had not previously tracked this at its sites.

Output 2.2.3:

144. *Number of TURF and no-take zone regulation violations stabilized or decreased in priority marine ecosystems.*
145. Two of the key elements of success in Fish Forever are the establishment of both the TURF and the reserve, or no-take zone (NTZ). TURF + reserves, when managed well, often produce more abundant fish stocks with larger, more valuable fish. Illegal fishing activity, whether by outsiders or by non-compliant TURF + reserve participants, has great potential to undermine the incentives of the system. For this reason, enforcement is critical to the success of a TURF + reserve as it helps to ensure that fishers see the rewards of their conservation behavior and are advocates for respecting TURF and reserve boundaries, catch limits, and other fishery controls. Therefore, it is important to outline a system for enforcing TURF-Reserve boundaries and regulations in the TURF + Reserve Management Plan to minimize illegal fishing and optimize incentives for self-enforcement by TURF + reserve members.
146. Violations of regulations – e.g. gear restrictions, seasonal closures and respect for the NTZ – are behaviors that must be eliminated to protect ecosystem integrity. Stabilizing or decreasing such violations demonstrates improved constituency for sustainable fisheries management. Progress towards Output 2.1.2 will be measured by the number of TURF and NTZ regulation violations recorded within 3 years of Fish Forever implementation.

147. For TURF regulation violations, data is collected monthly at our Fish Forever sites, with annual summaries for years 1, 2, and 3 (during the Pride campaign) and years 6 and 9 for follow-up (as funding allows). The site level objective is that within 3 years from the establishment of the TURF, each Fish Forever site will have a stabilized or decreased number of TURF violations - recognizing that different Fish Forever sites will have different “starting points”. When the Fish Forever program was initially designed it was developed as a 3-year program. As such, for site level indicators, the objectives should be met within either 3 or 6 years from the launch of Fish Forever at each site. Given the fact that fisheries often take 5-10 years to recover, monitoring at years 6 and 9 is recommended.

## **B. Associated Baseline Projects**

### *Philippines*

148. Despite the need for continued work to improve marine protected area (MPA) effectiveness in the Philippines, the country has made great progress over the last 30 years. The country has taken steps to create a unique enabling environment for biodiversity conservation and near-shore fisheries management, including federal legislation which has supported the creation of a network of 28 national MPAs covering 15,000km<sup>2</sup> (1,500,000ha), the establishment of 1,200 municipal MPAs covering 500km<sup>2</sup> (50,000ha) and devolution of authority over near shore waters to the municipal governance level.
149. Furthermore, significant investments have been made to develop integrated coastal resource management (ICRM) plans; notable contributions have been made by USAID-supported programs like Fisheries for Improved Sustainable Harvest (FISH) and the Ecosystems Improved for Sustainable Fisheries Project (ECOFISH), as well as through academic institutions including the University of the Philippines Marine Sciences Institute (UPMSI).
150. The World Bank’s USD 500 million investment in the Philippine Rural Development Project (PRDP) also seeks to conserve coastal and marine resources while increasing fishers’ (and farmers’) income by 5 percent annually by supporting changes in fisheries planning and implementation practices, as well as financing priority infrastructure and enterprise development projects.
151. The GEF’s Strengthening the Marine Protected Area System to Conserve Marine Key Biodiversity Areas (MKBA) project also aims to strengthen the conservation, protection and management MKBAs in the Philippines. Rare is partnering with the Philippines Department of Natural Resources (DENR) to implement one portion of the project in the Tañon Strait.
152. With much of the focus in the current scenario on improved spatial planning and management and regulatory frameworks, what is missing are strong local-level incentives for compliance and behavior change. These systems must address both issues of tenure and security, as well as economic and market-based incentives.

### *Indonesia*

153. Indonesia has also prioritized efforts to conserve and protect its natural resources. In 2009, the Indonesian government announced a commitment to reach 20 million hectares (200,000km<sup>2</sup>) of effectively managed MPAs by 2020.<sup>77</sup> In his inaugural address, current President Joko Widodo stated his intent to grow Indonesia as a maritime power, later announcing a strategy that has coalesced around five policy pillars. One of these pillars is “improved management of Indonesia’s oceans and fisheries through the development of the country’s fishing industry and building maritime ‘food sovereignty’ and security.”<sup>78</sup>
154. Indonesia is also the beneficiary of several major investments into marine conservation from other multilateral and private sector actors, including the USD 120 million investment by the World Bank and Asian Development Bank (ADB) into Phase 3 of the Coral Reef Rehabilitation and Management Program (COREMAP) for the sustainable management of coral reef systems and associated biodiversity, and the multi-donor Coral Triangle Initiative for Coral Reefs, Fisheries and Food Security (CTI-CFF).
155. Outside of the Indonesian government and its multilateral supporters, the next largest source of investment in marine conservation in Indonesia comes from private foundations, especially the MacArthur, Walton Family, David and Lucile Packard, and Margaret A. Cargill Foundations who, collectively, plan to invest another USD 35-40 million over the next three years in marine management and conservation.<sup>79</sup>
156. The work of conservation NGOs, including Rare and CI, is also contributing to the progress in Indonesia and the Philippines. Notably, from 2010-2014, Rare partnered with local leaders in approximately 40 coastal communities across both countries to conduct Pride<sup>80</sup> campaigns that built constituency for MPA compliance and management. Fish Forever, described below, builds on the success of this work.
157. Similar to the current scenario in the Philippines, strong local incentive systems are what is needed to complement current efforts and accelerate the social and market behavior changes required for significant impact.

### *Fish Forever*

158. Fish Forever is Rare’s global initiative to protect nearshore fisheries and conserve marine ecosystems by placing the power directly in the hands of communities to restore the fisheries to which their livelihoods and food security are so intimately linked. The program intends to catalyze a global movement of nearshore fisheries reform beginning with five countries, including Indonesia and the Philippines.

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<sup>77</sup> Yulianto, Ifran, Yudi Herdiana, Martheus H. Halim, Prayekti Ningtias, Agus Hermansyah and Stuard Campbell, “Spatial Analysis to Achieve 20 Million Hectares of Marine Protected Areas for Indonesia by 2020,” *Wildlife Conservation Society and Marine Protected Areas Governance*. Bogor, Indonesia: 2013. <http://www.wcs.org/files/pdfs/wcs-mpag-spatial-assessment.pdf>

<sup>78</sup> Neary, Adelle, “Jokowi Spells Out Vision for Indonesia’s ‘Global Maritime Nexus,’ *Center for Strategic and International Studies*, November 26, 2014, <http://csis.org/publication/jokowi-spells-out-vision-indonesias-global-maritime-nexus>.

<sup>79</sup> The John D. and Catherine T. MacArthur Foundation, The David and Lucile Packard Foundation, The Margaret A. Cargill Foundation, and The Walton Family Foundation. *A Foundational Commitment to Improve Collaborative Investment in the Health of Indonesia’s Oceans: Indonesia Marine Funders Collaboration*. 2015.

<sup>80</sup> Rare’s signature Pride campaigns inspire pride in local communities around unique natural assets and create a clear path for local change. Pride is based on the principles of social marketing and proven social science methodologies.

159. By 2023, the program aims to demonstrate productive, sustainable and profitable nearshore fisheries, where:
- 20 percent of relevant sites<sup>81</sup> in each country are in the process of adopting managed access + reserve systems (i.e. community rights-based systems that integrate conservation and sustainable use); and
  - On average, 20 percent of the area of each managed access system is fully protected by NTZs.<sup>82</sup>
160. Fish Forever builds on Rare’s previous work in Indonesia and the Philippines over the last 10 years, including dozens of sites in which management capacity and community support for marine protected areas has been established; Fish Forever builds on these projects by adding a spatially-based, rights-based management approach (territorial use rights for fisheries, or TURFs, often referred to as ‘managed access’), in conjunction with no-take reserves. Community-level TURFs are one way to address issues of tenure and provide fishers with added security in their access to natural resources, providing one type of incentive for adopting behaviors that reduce destructive and overfishing.
161. Fish Forever activities currently underway in Indonesia and the Philippines directly address many of the barriers related to the lack of social and policy norms in support of sustainable management of SSF. In current Fish Forever sites across these two countries, local partners are at work to build constituency and set goals for fisheries management, design and demarcate reserves and managed access fishing areas, establish and/or strengthen fishers’ groups and management bodies, and coordinate across a diverse set of stakeholders, including national and local government. Two years into implementation, results are encouraging, with the first two community-designed TURF + reserve systems signed into law in two LGUs in the Philippines, and the national government of Indonesia increasingly signaling its support for rights-based management.
162. Fish Forever will continue to empower local fishers and build community capacity in sustainable fisheries management, but a necessary complement to this work entails providing financial incentives to encourage behavior change and provide economic viability to communities taking on short-term reductions in fishing effort as fish stocks recover.
163. As per the Fish Forever program’s minimum design specifications, TURF + reserves are designed based on socio-economic and ecological community goals and established corresponding to the political and legal context. Systems for secure and exclusive privileges (access and extraction) are then put in place for fishers who meet eligibility requirements and who comply with TURF regulations. This includes the development and implementation of a system for allocating rights such as licenses, registration, membership in a particular fisher association, residence in a community, or by some other means.
164. For each TURF + reserve, a multi-stakeholder management body is put in place, with participation from members of the fishing community and legal authority to manage and enforce the TURF + reserve area. Furthermore, for each site, management plans are

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<sup>81</sup> Each country has identified which coastal communities (or sites) are relevant for managed access systems based on criteria including (for example) size of municipal waters and potential for recovery.

<sup>82</sup> Research indicates that the reserve should, on average, cover 20 percent of the area under management to maximize its biological/ecological benefit. That said, the exact size may be larger or smaller based on the species/habitat and community needs.

established which take into consideration specific TURF + reserve characteristics and the banning of specific extractive and destructive practices. As a part of the management plan, an enforcement system for the TURF + reserve is also developed with thorough community input. A system is also created that evaluates the compliance of fishers and assigns sanctions to specific violations (including possible loss of rights so that continued tenure of rights is contingent upon compliance).

165. To ensure community support, fishers are organized and are involved in TURF + reserve management and decisions (i.e. fisher associations, cooperatives or similar organizations are formed or strengthened and are expected to hold regular management meetings that are widely attended). The rationale is that by increasing the sense of ownership and involvement from the community, long-term sustainability of the fishery will be ensured.
166. The Meloy Fund is an opportunity for the GEF, alongside other investors, to make the difference that is needed to strengthen incentives for adoption of sustainable fishing practices in SSF, playing a critical role in de-risking investment in under-funded biodiversity areas and paving the way for private capital to lead to scale.
167. The table below outlines many of the baseline projects currently underway or recently completed in Indonesia and the Philippines. Despite such strong baseline efforts in both countries, the health of critical coral reef ecosystems and their capacity to support the livelihoods of millions of Filipinos and Indonesians remains in jeopardy. Without sufficient economic incentives and fair markets that work for fishers, it is difficult or impossible for communities to transition to more sustainable fishing practices that will first slow, and eventually reverse declining trends. The GEF has an opportunity to build on these baseline projects by contributing to the Meloy Fund, which is designed to address the financial and market barriers standing in the way of full support for community rights-based management that reduces the threat of overfishing on coral reef ecosystems.

**Table 4: Baseline Projects**

Project Name	Years (Start-End)	Budget (USD)	Donor(s)	Objectives/Brief description of how it is linked to this GEF project
Fish Forever (Philippines)	2014 – 2017 <sup>83</sup>	USD 19 million	Foundations, USAID, GEF/UNDP, BMUB, etc.	Vision is to catalyze a global movement of near-shore fisheries reform in the developing tropics to ensure profitable and sustainable fisheries while: <ol style="list-style-type: none"> <li>1. Boosting livelihoods,</li> <li>2. Protecting habitats,</li> <li>3. Enhancing coastal resilience to climate change.</li> </ol>
Fish Forever (Indonesia)	2014 – 2019 <sup>84</sup>	USD 44 million	Foundations, BMUB, etc.	Demonstrate productive, sustainable and profitable near shore fisheries

<sup>83</sup> Information only available for this timeframe, but program will extend beyond 2017.

<sup>84</sup> Information only available for this timeframe, but program will extend beyond 2019.

				TA and capacity building for fisheries management provided by Fish Forever lays the necessary foundation for success of the Meloy Fund.
Rare Pride program for no-take zone compliance (Indonesia)	2010-2014	USD 4.3 million	Foundations	Train local leaders to implement social marketing campaigns targeted at increasing fishers' compliance with no-take-zones.
Rare Pride program for MPA compliance (Philippines)	2010-2014	USD 5.4 million	Foundations, USAID	Train local leaders to implement social marketing campaigns targeted at increasing community compliance with MPA management and regulations.
Global Development Alliance: Harnessing Markets to Secure a Future for Near Shore Fishers (Philippines)	2015-2017	USD 2.4 million (new USAID funding)  Additional funding leveraged from existing grants and in-kind.	USAID/Philippines; Bloomberg Philanthropies; Pinoy Microenterprise Foundation; Encourage Capital	<p>The project's goal is to identify and pilot approaches that improve social and economic returns of near shore fisheries in a way that supports and creates greater incentives for biodiversity conservation and sustainable management of fisheries, while both maintaining (and ultimately enhancing) the livelihoods of fishers and those directly and indirectly dependent on their income.</p> <p>The objective is to advance the economic incentives for conserving marine biodiversity and sustainably managing local fisheries through community rights-based management.</p> <p>After further assessment of the pilot projects under the GDA, Rare has decided that none are suitable candidates for financing from the Meloy Fund at this time.</p>
Coral Reef Rehabilitation and Management Program (COREMAP) (Indonesia)	Phase 1: 1998 – 2004  Phase 2: 2005 – 2011  Phase 3: 2014 - 2019	Phase 3: USD 120 million	Asian Development Bank, World Bank (loans)  GEF (grant)	<p>Sustainable management of coral reef resources, associated ecosystems and biodiversity for the welfare of communities in selected districts</p> <p>Under Component 2 (2.4): <i>Piloting community rights-based approach:</i> (a) ascertain the feasibility of the designated pilot areas for community-based approach for the</p>

				<p>management of marine resources; and (b) support the process of defining and establishing community rights over reef, fishery and associated resources through implementation of pilots.</p> <p>Rare has provided trainings to the Indonesian government on rights-based fisheries management under COREMAP, which helped strengthen the legal and policy environment.</p>
<p>Coral Triangle Initiative for Coral Reefs, Fisheries and Food Security (CTI-CFF)</p>	<p>2009 - current</p>	<p>&gt; USD 1 million per year</p>	<p>USAID, AusAid, GEF, contributions from member countries</p>	<p>There are five goals in the Regional Plan of Action of the CTI-CFF:</p> <ul style="list-style-type: none"> <li>• Goal 1: Priority Seascapes designated and effectively managed</li> <li>• Goal 2: Ecosystem Approach to Management of Fisheries (EAFM) and other marine resources fully applied</li> <li>• Goal 3: Marine Protected Areas (MPAs) established and effectively managed</li> <li>• Goal 4: Climate Change adaptation measures achieved</li> <li>• Goal 5: Threatened species Status improving</li> </ul>
<p>Coastal Community Development International Fund for Agricultural Development (CCD-IFAD) (Indonesia)</p>	<p>2012 - 2017</p>	<p>USD 43 million</p>	<p>IFAD loan and grant; co-financed by Spanish Fund</p>	<p>Project goal: reduce poverty and enhance economic growth for poor but active coastal and small island communities.</p> <p>The development objective is increased household incomes for families involved in fisheries and marine activities in the target communities.</p> <p>The project will be implemented in eastern Indonesia in areas with a high incidence of poverty. The focus will be on a limited number of districts with diverse marine environments and socio-cultural contexts.</p> <p>Four main project elements:</p> <ol style="list-style-type: none"> <li>1. Community empowerment continues to be a key strategy underlying government</li> </ol>

				<p>development programs and shapes the mode of implementation, and provides the basis for project investment activities to work and interact.</p> <ol style="list-style-type: none"> <li>2. The market-focused strategy and associated interventions will enable fisher and marine households to increase sustainable net returns on fish and other marine products. The community's creation of enterprise groups will be the key intervention to open-up economic opportunities. The enterprise groups would be "the engine" in the high-potential value chains supported by the project.</li> <li>3. The focus on poverty and pro-poor targeting has been a determining factor in selecting the project communities. Within those communities, the focus is on the economically active poor and their inclusion in project activities.</li> <li>4. The planned replication and scaling up of project activities and processes has also influenced the selection of districts, and resulted in physical and social diversity and the geographical spread of project districts from West Kalimantan to Papua.</li> </ol>
Strengthening the Marine Protected Area System to Conserve Marine Key Biodiversity Areas (Philippines)	2014-2019	<p>USD 8 million (GEF)</p> <p>&gt; USD 37 million (Co-financing)</p>	GEF	<p>Project Outcome 2: Financial resources available for management of MPAs and MPANs are sufficient to meet all critical management needs (est. at USD 66/ha/yr for MPAs &gt;150has), and are growing in line with the expansion of the MPA system. Sources of revenue for MPA management are being progressively diversified, with the percent of revenue being derived from central government fiscal sources declining to less than 50 percent by project end.</p>

				Introducing new access to capital through the Meloy Fund could help boost local economies in a way that is complementary to achieving the desired outcome of diversified revenue for MPA management.
Philippine Rural Development Program (Philippines)	2014-2021	USD 500 million	World Bank	<p>Program aims to increase rural incomes and enhance farm and fishery productivity in targeted areas by supporting smallholders and fishers to increase their marketable surpluses and access to markets, including through infrastructure investments and enterprise development.</p> <p>Goals of the program are aligned with the Meloy Fund, and status of rural infrastructure will be important to deal-sourcing for the Meloy Fund. Infrastructure improvements stemming from this program are of benefit to the Meloy Fund.</p>
Coastal Fisheries Initiative (CFI) Indonesia – Blue Abadi Fund		<p>USD 2,993,190 (GEF)</p> <p>USD 11 million (Co-financing)</p>	GEF	<p>The objective of the Blue Abadi Fund is to contribute to coastal fisheries in Indonesian Fisheries Management Areas (FMA) 715, 717 and 718 delivering sustainable environmental, social and economic benefits and demonstrate effective, integrated, sustainable and replicable models of coastal fisheries management characterized by good governance and effective incentives.</p> <p>Meloy Fund will seek to collaborate with the Blue Abadi Fund, wherever relevant, including where there is overlap in geography, fund recipient, or otherwise.</p>
CFI – Challenge Fund		<p>USD 7.8 million (GEF)</p> <p>USD ~40 million (co-financing)</p>		<p>The CFI Challenge Fund Project aims to:</p> <ul style="list-style-type: none"> <li>• support governance and sustainable fisheries management reforms within or across the CFI countries; and</li> <li>• pilot models for accelerating financially- and environmentally-</li> </ul>

				<p>sustainable investments in the fishery sector.</p> <p>The Fund aims to invest between 0.75 and 2.0 + million USD in possible investment projects in the 6 CFI countries. On the basis of agreed selection criteria, a competitive process will be used to disburse the funds with the aim to maximize the leveraging of the Challenge Fund with other initiatives in the regions.</p> <p>The four major components of the Challenge Fund are:</p> <ul style="list-style-type: none"> <li>• Analytical and advisory support facility</li> <li>• Grants facility</li> <li>• Investment selection, supervision and monitoring and evaluation facility; and</li> <li>• South-South knowledge sharing and learning</li> </ul> <p>Meloy Fund will seek to collaborate with the Challenge Fund, wherever relevant, especially on Technical Assistance to potential or current investees, where there is overlap in geography, and fund recipient.</p>
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**C. Incremental Cost Reasoning**

168. A number of baseline projects in Indonesia and the Philippines are focused on the establishment of requisite governance structures and management plans, including on the implementation of those plans. This work is appropriately in line with local and national priorities. The plans take into account the requirements of protecting globally significant biodiversity such as coral reef ecosystems and species, and national and overseas development assistance continues to flow into the enforcement of these plans. Social change surveys from Rare’s work in the Philippines and Indonesia, which measure changes in knowledge, attitudes, and the adoption of sustainable behaviors, show that great progress is being made to motivate behavior change at the local level.
169. However, to achieve both scale and sustainability of these efforts, we need to enhance market-based incentives that will finance fisheries recovery and are tied to the protection of species and habitats of global significance. Current efforts focused on international brands often fail to create the correct long-term incentives, as most of the additional profits from certification brands often do not end up benefitting local fishers. Hence, these fishers are not the ones rewarded for new behaviors.

170. Through the Meloy Fund, the GEF has an opportunity to address the current gap in local economic incentive creation by injecting financing directly into the supply chain at the points most appropriate to impact globally significant coral reef ecosystems and species. The GEF financing will not only enable the Meloy Fund to prioritize investments based on global biological significance and the presence of appropriate planning and governance, but also to build the specialized expertise and fund structure necessary to identify private sector actors along the supply chain who, through their business practices, directly influence fisher behavior at a site level, and to make investments that produce financial returns. These returns include the economic incentives required at a site level to motivate changes in fisher behavior that is required to achieve global environmental benefits.
171. The Meloy Fund is also an opportunity for the GEF to expand its private-sector driven approaches in a region of significant biological diversity, and in a sector with significant impact on biodiversity that has been overlooked for too long by the market: small-scale fisheries (SSF). The GEF's anchor funding will attract and mobilize other investors to the fund, enabling the Meloy Fund to reach its capitalization target. Once investments are underway and providing returns, the Meloy Fund de-risks SSF as an investment paradigm, de-risking complimentary public and private funding to enter the market at commercial terms. In this way, GEF financing will be instrumental in creating an innovative and scalable approach to strengthening economic incentives for global environmental benefit.

#### **D. Global Environmental Benefits**

172. Through the improved conservation and management of 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems, this project is directly linked to delivery of the global environmental benefits that the GEF-6 biodiversity focal area is designed to achieve, namely:
- The conservation of globally significant biodiversity, including seascapes with important marine habitat such as coral reef, seagrass, mangrove and oceanic; and
  - The sustainable use of the components of globally significant biodiversity, including those found in marine habitats.
173. The waters of both the Philippines and Indonesia are considered among the world's richest marine ecosystems. They are home to 76 percent of the world's coral species, and more coral reef fish diversity than anywhere else in the world: 37 percent of the world's coral reef fish species and 56 percent of the coral reef fishes are found in the Indo-Pacific region.<sup>85</sup> Additionally, an estimated 8 percent of the coral reef fish species in this area are endemic or locally restricted species.<sup>86</sup>
174. The estimated cost of the destruction of 1km<sup>2</sup> of coral reef ranges between USD 137,000-1,200,000 over a 25-year period (if counting the economic value of fisheries, tourism, and shoreline protection).<sup>87</sup> In Southeast Asia, the total economic value of Indonesia's reefs is estimated at USD 1.6 billion annually, and the total economic value of Philippine reefs is estimated at USD 1.1 billion

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<sup>85</sup> Veron *et al.* Unpublished data [http://wwf.panda.org/what we do/where we work/coraltriangle/coraltrianglefacts/](http://wwf.panda.org/what_we_do/where_we_work/coraltriangle/coraltrianglefacts/)

<sup>86</sup> *Ibid.*

<sup>87</sup> *Ibid.*

annually.<sup>88</sup> A broad range of fish species in the Coral Triangle area are also under threat, including 145 identified in Indonesia and 74 in the Philippines.<sup>89</sup>

175. This project will play an important role in protecting key areas of global biological significance, including reef systems and habitats for known threatened or overexploited fish species of global importance. Current financing of coral reef management is insufficient considering the threats of land-based and marine-based human activities that cause irreversible damage to coral reef resources.<sup>90</sup> This project offers the opportunity for GEF to play a catalytic role in the sustainable management of SSF in one of the most important coral reef and mangrove ecosystems in the world. Through GEF's incremental support, this project will improve incentives and capacities needed for the sustainable management of SSF, and will work to shift current unsustainable practices to more sustainable fisheries practices that will generate significant global environmental benefits.

## E. Socio-Economic Benefits

176. According to independent experts, governments, and international organizations, SSF face long-standing, ongoing challenges, including issues to related declining stock, degraded habitats, and lack of access to technical support and financing. Because of these factors, in combination with broader environmental and economic trends, international organizations, such as the Food and Agriculture Organization of the United Nations (FAO) and the Pew Charitable Trusts consider 75 percent SSF globally to be overfished or at risk of collapse. This risk is particularly acute in Indonesia and the Philippines, where nearshore fish catch represents half of the yield but over 90 percent of fishing sector jobs, and provide a key source of food and livelihoods for the world's poorest people. Coastal fisheries also contain the most critical and fragile ecosystems for conservation, such as coral reefs and mangroves, all of which help protect the most climate vulnerable communities on the planet.
177. Rare estimates that in these two markets, Fish Forever can unlock up to USD 4 billion of value, or roughly double the current revenues from the near-shore sector (not including multiplier effects), through fisheries reform, which could be made available to local communities and fishing-related enterprises.
178. The relationship between the Fund and Rare is intended to provide a link between the Fund's investments and communities' transition to sustainable fisheries management; a symbiotic system in which improved governance and the creation of a monetizable asset for local fishers (via exclusive access) enables new economic opportunities, which in turn encourage more sustainable long-term fisheries management and an increase in asset value.
179. As outlined above, the Fund has specific social impact targets:
- 100,000: fisher household members positively impacted
  - USD 20 million: Aggregate annual purchases from fishers

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<sup>88</sup> *Ibid.*

<sup>89</sup> Number of threatened fish species <http://data.worldbank.org/indicator/EN.FSH.THRD.NO>. Threatened species are the number of species classified by the IUCN as endangered, vulnerable, rare, indeterminate, out of danger, or insufficiently known. Froese, R. and Pauly, D. (eds). 2008. FishBase database, [www.fishbase.org](http://www.fishbase.org)

<sup>90</sup> Samonte-Tan, G. and Armedilla, M. C. 2004. Economic Valuation of Philippine Coral Reefs in the South China Sea Biogeographic Region. National Coral Reef Review Series No. 3. UNEP.

180. Furthermore, the Fund will set increasing annual impact goals for every investment, which ultimately roll up to the Meloy Fund's own impact goals (to have a positive impact on the lives of 100,000 fishers and their household members, and place 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems under improved sustainable management.

## F. Risk Assessment and Mitigation

181. Given the investees' comparatively small size and early stage, the Fund's investments will face equity-like risks. Financial returns will be commensurate with those risks, but will be balanced with strong social and environmental returns.
182. We acknowledge that there are many barriers facing small businesses in general, and especially in an undercapitalized sector like SSF. We have identified three main strategies to minimize *that risk and ensure success*:

- 1) Formal: During the PPG phase, the team developed formal processes for due diligence, investment selection, risk management, conflict resolution based on best-practices from the impact investment industry. Based on the many examples that are already in existence, Rare assessed best practice structures for non-profit relationships to investment funds as well as best practices for fund management. Documents reviewed include the Institutional Limited Partners Association (ILPA) Private Equity standards, Conservation Finance Alliance | Practice Standards for Conservation Trust Funds (PSCTF), the GEF Finance for Biodiversity Conservation Trust Funds: A Checklist, as well as other relevant information published through renowned organizations such as the Global Impact Investing Network (GIIN) and the Aspen Network of Development Entrepreneurs (ANDE).

Rare has found that many of the best practices and standards identified to be relevant to the Meloy Fund and commits to applying those applicable to the management and administration of an investment vehicle such as the Meloy Fund, noting that there are certain key differences between trust funds and impact investing funds. Such differences include, but are not limited to the fact that investment funds do not manage an endowment, do not make grants, and typically have different roles for stakeholders than do trust funds. In addition, as noted above, the Meloy Fund will seek to adhere to the ILPA Private Equity standards, which are a well-known and stringent set of guidelines for investment funds. Relevant take-aways from these assessments can be found in Appendix XII and the compiled standards that are to be adopted by the Meloy Fund can be found in Appendix XIII.

- 2) Informal: In the countries in which we have chosen to invest, informal networks are as important as formal processes. They help to ensure credibility, identify the best investment opportunities, ensure compliance with often-obscure legal issues, and protect against corruption. As noted under Output 1.1.1 above, local advisory boards will be created and utilized as a means of tapping into these networks. These local advisory boards will help the Fund assess risk and select the most promising opportunities.
- 3) Fish Forever: Our value proposition is predicated on our close alliance with Rare's Fish Forever program, which provides on-the-ground community and government engagement to ensure buy-in. As Meloy Fund staff will be working side-by-side with the local Fish Forever

team and partners, we will further mitigate risks and build networks that will contribute to investable opportunities and triple-bottom line success.

183. The table below summarizes the main risks assessed that might hinder the achievement of project objectives, together with strategies to mitigate such risks. In addition to the risks outlined below, the GP has also outlined specific risks as relevant to Fund investors within the (confidential) legal documentation for the Fund (i.e. the Private Placement Memorandum and Subscription Agreement).

**Table 5: Risk Assessment and Mitigation Planning**

Project Outcome	Risks	Rating <sup>91</sup> (H, S, M, L)	Risk Mitigation Measures
Outcome 1.1	<u>Deal sourcing risk</u> : The Fund may be unable to find a sufficient number of attractive investment opportunities to meet its investment objectives and, even if successful in finding such opportunities, that those selected investments will successfully achieve the Fund’s objectives.	Substantial	As explained in <u>Section 2.G</u> , the Meloy Fund believes that the historical precedent for investment in this sector undervalues the potential and is stifled by a lack of entrepreneurship, creativity, and long-term strategies for fishery improvements. Further, our deal sourcing ability is enhanced via the following channels a) Local staff with on-the ground presence; b) Technical expert network; c) Conservation partners; d) Country advisory boards; and e) Conferences, forums, and investor networks.  As of March 2017, the Fund has closed one investment and developed an investment pipeline in Indonesia and the Philippines of nearly USD 10,000,000.
Outcome 1.1	<u>Currency exchange risk</u> : The income received by the Fund will be in U.S. Dollars, although the Portfolio Companies will operate in their own local currency. Accordingly changes in currency exchange rates between the U.S. Dollars and such foreign currencies may adversely affect the portfolio	High	Both Indonesia and the Philippines currently have fairly strong macroeconomic fundamentals and no major currency swings are expected at least in the short term.  The Fund investment committee will take into account potential

<sup>91</sup> High Risk (H): There is a probability of greater than 75 percent that assumptions may fail to hold or materialize, and/or the project may face high risks; Substantial Risk (S): There is a probability of between 51 percent and 75 percent that assumptions may fail to hold and/or the project may face substantial risks; Modest Risk (M): There is a probability of between 26 percent and 50 percent that assumptions may fail to hold or materialize, and/ or the project may face only modest risks; Low Risk (L): There is a probability of up to 25 percent that assumptions may fail to hold or materialize, and/ or the project may face only modest risks.

	companies' ability to pay and potential returns to the Fund.		currency risks as a standing component in every investment, and prioritize investments in organizations that export their products to developed countries as a hedging strategy. The Fund may also explore currency hedging strategies if local currency investments are required.
Outcome 1.1	<u>Investment Risk</u> : There can be no assurance that the development of any particular investment will be successful or that its business will be profitable. Some of the Fund's portfolio companies may be unseasoned, unprofitable and/or have no established operating history or earnings. These companies may also lack technical, marketing, financial and other resources, or may be dependent upon the success of one product or service, or a unique distribution channel.	Substantial	The Meloy Fund has four key elements in order to mitigate investment risk. First, the Fund will follow a rigorous due diligence buttressed by our local staff, Rare's network of technical experts, and the setting up of country advisory boards. Second, the Fund's portfolio will manage its concentration risks against specific limits including parameters such as sector, geography, and borrower type. Third, the Fund will monitor each investment on a regular basis including a quarterly internal review involving a valuation report. Each investee will be required to make at least quarterly payments to instill strong repayment discipline and will provide reports on a quarterly basis. Fourth, the fund will take first ranking security over all the investee's fixed and where possible current assets, including those assets purchased with the investment.
Outcome 1.1	<u>General economic and market conditions</u> : By investing in various developing countries, the Fund may be subject to economic, political, regulatory and social risks, which may affect the liquidity and value of its investments. Foreign governments may exercise substantial influence over many aspects of the private sector, and the success of the Fund's investments may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances.	Modest	First, as described in Section 3.0 below, Rare has developed strong relationships with key government bodies at local, municipal, regional, and national levels as a key element of developing healthy community fisheries, and will make sure it continues doing so as part of the Fund's activities.  Second, our multi-local approach diversifies risk across geographies and political boundaries, hedging against potential weather events, political changes, microeconomic pressures, etc.

			Finally, we will assemble a well-networked in-country advisory board, to include top government and private sector players, to help us vet investment opportunities and to minimize the effects of corruption and political pressure.
Outcome 1.1 and Outcome 2.2	<u>Climate change risk</u> : An increase in global average surface temperatures has resulted, among others, in rising sea levels, shifting precipitation patterns, droughts and floods, and higher likelihood of more extreme weather and more violent natural catastrophes. Temperature rises make weather harder to predict and raise the margin of error in modelling knock-on effects on agricultural and fisheries production. The Philippines appears to be especially susceptible to climate change related challenges due to it being an island nation with a very high number of tropical storms, and which are expected to increase in severity due to regional wind patterns and rising sea levels.	Medium	Fish Forever contributes to social resilience in communities through community engagement and capacity building. This, along with a diversification of income sources, which help communities adapt and respond to climate events. Conserving coral reefs, coastal habitats, and preserving trophic balances also provide biophysical resilience as ecosystem integrity is improved, helping reef systems better withstand natural disasters and the effects of warming ocean temperatures.
Outcome 2.1 and Outcome 2.2	<u>Fish Forever program risk</u> : Rare is in process of developing its strategy for the next cohort of Fish Forever sites in both countries. As the strategies are finalized, Rare will then be required to raise funds in support of the outlined interventions.	Medium	Through its work in-country and globally, Rare has developed a strong network of experts and partners that could be called on for technical support as needed.  Furthermore, Rare has been working closely with both governments to support positive social change, build connectivity between reform efforts across multiple levels of government, and scale our community-led solutions – such as Fish Forever. Rare has been working to empower local partners to address policies and regulations that remove barriers to and incentivize implementation of natural resource management solutions long in the future.

## G. Sustainability

184. The Meloy Fund, working together with Fish Forever, results in sustainable livelihoods for local fishing communities practicing (or transitioning to) behaviors that reduce human threats to targeted coral reef ecosystems.
185. In addition, a key objective of the Meloy Fund is to build alignment with fisheries supply chains so that our investees – among other players – can move towards a sustainable business model. In part, this is enabled through a sustainable supply of coastal fish and related products, as well as maximizing efficiencies and minimizing waste. If these improvements to fisheries supply chains become business as usual, the impacts on marine habitats will reach far beyond the areas of investment specifically targeted in the proposed project.
186. The Meloy Fund will have a lasting impact by financing unbanked enterprises to acquire those fixed assets that will enable financial growth, job creation, and resilience to economic shocks. Additionally, the Fund will provide business development support to investees to cover non-monetary gaps. The business development support and fisheries TA will support the investee's growth and development, as well as maximize the social and environmental impacts of the Fund's investments. It will be delivered in kind and in most cases by Rare staff on a fee-for-service basis as the financials will bear.
187. The most common business development support and fisheries TA needs are expected to be:
- Best fishery management practices to improve quality and yield, and reduce wastage.
  - Operational and sales support including quality control, inventory management, operational efficiency, and customer management.
  - Financial Management such as setting up financing information systems, proper accounting and budgeting, annual projections, and managing by numbers.
  - Corporate governance, such as setting up corporate checks and balances through boards and community representation and senior management mentoring.
188. Broader institutional and governance factors are also key in ensuring sustainability. Fish Forever has developed good relationships with public players at local, municipal, regional, and national levels. Having the buy-in of local and national governments will be a key asset for successful Meloy Fund investments.
189. Similarly, the Fund will benefit from government support to cover infrastructure gaps, such as construction of ports or roads, and potentially to provide access to sources of government funding. At the same time, the Meloy fund will ensure that its investments also support the government's objectives, such as aligning with government targets for marine conservation and fisheries production; or receiving higher revenues in the form of taxes, duties, or other business licenses from the enterprise.
190. Finally, the Meloy Fund will create sustainable and lasting impacts at a community level. The combination of social and institutional incentives provided through Fish Forever's establishment of rights-based management and strengthening of social norms and cohesion, plus the market-based incentives provided through the Meloy Fund, will create significantly stronger incentive systems and

enabling environment for fishers to continue fishing in ways that reduce negative pressures on coral reefs.

## **H. Innovativeness**

191. As described above, the Meloy Fund uniquely invests in multi-local, scalable approaches that have a direct impact on fishers whose behavior impacts marine habitats including coral reefs, seagrass, mangroves and oceanic. Our strategies serve to enhance the value of SSF and/or directly offset fishing pressure to enable the recovery of wild-caught fisheries and reduce the costs of biodiversity protection. Investments complement Rare's community fisheries work and ensure that all players are aligned financially and through a shared mission.
192. The Meloy Fund is also expected to generate strong operational synergies across the organization, especially within Rare's Fish Forever Initiative. The goal of this relationship, and an innovation in the sustainable fisheries sector, is to create a feedback loop whereby fisheries governance and economic incentives are provided to help local communities behave sustainably (see Figure 3 above). This project will result in strong economies of scale around a common theme, as well as provide cross-pollinating lessons learned. Together, these characteristics make the Fund an innovation within the impact investing field and the fisheries sector.

## **I. Replicability and Potential for Scaling Up**

193. The Meloy Fund's catalytic impact will take place at different levels. At the investee level, the Meloy Fund will seek businesses with a proven business model and will provide long term financing to enable these organizations to scale up their operations. Moreover, the Meloy Fund will support successful deals to raise additional financing during or shortly after our investment has been returned in order to continue financing this growth by, among other things, sharing the investees' records with interested financiers, supporting business plan development, and leveraging Rare's deep local networks.
194. At a broader level, the Meloy Fund will be one of the very few (if not the only) financial institution providing long term financing in community fisheries. The fund will prove the financial viability of engaging community fisheries to the financial sector by a) providing innovative and well-targeted products that support the development of formal businesses; and b) enabling local fishers to develop sustainable sources of income and a financial track record that can be leveraged by other lenders. By de-risking community fishery markets, the Meloy Fund will attract commercial financing to these communities, improve long-term economic prospects, and further buttress the community's commitment to good fisheries management and the sustainable use of coral reef ecosystems.
195. The Meloy Fund has the potential to shift corporate practices in ways that drive accelerated transition to sustainable fisheries management and fishing practices. If successful, the model could be scaled up and replicated in other community fisheries in Southeast Asia or Latin America where strong fisheries legislation is in place.

## J. Consistency with National Priorities, Plans, Policies and Legal Frameworks

196. The Meloy Fund’s close link with Fish Forever means that it will contribute directly to national priorities of the Philippines and Indonesia. Rare’s local teams are working closely with the responsible ministries to contribute to the implementation of their national strategies and plans, including those listed below and new ones in development. By using investment criteria guided by this work, the Meloy Fund will be able to filter investments based on their contribution to national priorities in a way that less focused funds may not.

**Table 6: Consistency with National Priorities, Plans, Policies and Legal Frameworks**

National Priorities/Strategies	Project Consistency
Indonesia: IBSAP 2003-2020 <sup>92</sup>	<p>The IBSAP suggests that advancing sustainable fisheries management and effective MPA management will contribute to achieving national targets including: (i) development of 10 percent of national waters as marine protected area; (ii) conservation of marine threatened species, and; (iii) overall, reduction of anthropogenic and climate change related impacts on coral reefs and associated ecosystems.</p> <p>The Meloy Fund supports this target by aligning market interests with these targets and providing economic incentives to manage resources in a manner consistent with the associated action plans.</p>
Indonesia: Biodiversity Management Action Plan <sup>93</sup>	To reduce and stop the rate of biodiversity degradation and extinction at national, regional and local levels within 2003-2020, along with rehabilitation and sustainable use efforts.
MMAF Strategic Plan	The project supports MMAF’s goal of increasing MPA coverage to 20 million hectares (200,000km <sup>2</sup> ) of effectively managed MPAs by 2020 by aligning market activity with the management plans of those MPAs and creating economic incentives for fishers to comply, which could reduce enforcement costs and contribute to sustainability.
CTI National Action Plans	The investments of the fund will support the national action plans of the Philippines and Indonesia under the CTI by providing economic incentives for ecosystem-based management approaches and shifts from unsustainable practices.
Philippines NBSAP	The Philippines’ NBSAP outlines two strategic actions that will be directly addressed by the proposed project: “Enhancing and Strengthening the Protected Area System” and “Developing a National Constituency for Biodiversity and Conservation in the Philippines” The Meloy Fund investment criteria will align market activity with the first of these goals, and successful investments will use economic incentives to contribute to the second.
The Philippine Development Plan (PDP)	The project will also significantly contribute to three focus areas in the Philippine Development Plan (PDP), which is a strategic policy framework for inclusive growth and poverty reduction that was

<sup>92</sup> <https://www.cbd.int/doc/nbsap/2010-and-post-2010-national-targets.pdf>

<sup>93</sup> Ibid.

	<p>developed by the National Economic and Development Authority (NEDA) in accordance with the Philippine Constitution.</p> <p>This project supports goals: i) pursuit of inclusive growth, ii) the establishment of a competitive and sustainable agriculture and fisheries sector, and iii) the conservation, protection and rehabilitation of the environment and natural resources (PDP, 2011-2016).</p> <p>In February 2017, the Government of Philippines approved the 2017- 2022 PDP which includes an unprecedented national commitment to small-scale fisheries reform, strongly advancing Fish Forever’s programmatic ambition. The inclusion of small-scale fisheries reform within the plan’s priorities not only signals the importance of the issue nationally, but also elevates it as a core development, versus purely environmental, issue.</p> <p>The 2017 – 2022 PDP also puts front-and-center the literal language and components of Rare’s Fish Forever program, including the necessity of behavior change as a programmatic enabler and the importance of a managed access approach to fisheries reform. It asserts that “strongly motivating behavioral change at the national, community and individual levels” is “the most effective strategy” to ensure compliance with national conservation laws.</p> <p>Further, the government plans to scale up community-based strategies that include territorial use rights in fisheries and seasonal closures for selected species.</p> <p>Rare is also working with NEDA on a breakthrough study to assess the costs and benefits of creating a national coastal fishery recovery program and a way of blending the necessary philanthropic, public and private capital. The cost-benefit analysis with NEDA compares the costs of investing in municipal fisheries to the resulting environmental, social and economic benefits such as increases in fisher incomes and food security and fewer families below the poverty line.</p>
<p>Indonesia: Guideline for Utilization of Sustainable Fisheries Zones in Marine Protected Areas for Fishing by Local and Traditional Communities</p>	<p>The Indonesian Ministry of Marine Affairs and Fisheries (MMAF) recently enacted the <i>Guideline for Utilization of Sustainable Fisheries Zones in Marine Protected Areas for Fishing by Local and Traditional Communities</i>. The Guideline, endorsed on July 29, 2016, gives communities living in and around Marine Protected Areas (MPAs) the responsibility to co-manage their coastal resources and implement MPAs alongside government partners.</p> <p>The Guideline is a breakthrough for small-scale fisheries in Indonesia. By involving small-scale fishing communities in many stages of MPA and Sustainable Fishery Zone Management, the Guideline aims to address challenges related to community participation, sustainable resource use, and fishery management – all of which can be considerable barriers to achieving co-management. Strong guidelines will also allow communities and</p>

	<p>districts to feel confident in how they implement Community-based Fisheries Management (CBFM) around MPAs in the future. Indonesia’s government support of CBFM provides a pathway for improving small-scale fisheries throughout the country. Building on its fifteen years of experience with local communities and district governments, and as part of Fish Forever in Indonesia, Rare has supported MMAF in developing CBFM guidance for small-scale fisheries – particularly in helping to design and execute regional and national workshops to assess CBFM potential. Additionally, by working closely with small-scale fishers and assembling input for inclusion in the Guideline, CBFM – which is a critical element of Fish Forever – can be considered as an important and viable sustainable fisheries management tool.</p> <p>Importantly, the Guideline also recognizes the significance of fisher livelihoods to the more than 132 million Indonesians living in coastal areas – many of whom are dependent on the health of adjacent coral reefs, mangroves, and marine fisheries. Small-scale fishers are the primary users of coastal fisheries and have much to gain, or lose, in determining how coastal waters are managed – making them critical to successful MPA management and enforcement. With 54 percent of Indonesians’ source of protein coming from fish, the interdependence between conservation and social wellbeing is evident. The new Guideline mandates small-scale fisher participation so that MPAs can both better protect Indonesia’s rich biodiversity and support the livelihoods of the communities that rely on them.</p>
National level MOUs	<p>Rare has a signed MOU with DENR in the Philippines and technical agreement with MMAF (under a country agreement with MOEF) in Indonesia. These documents outline the work Rare is doing in support of each agency. The work of this project will be implemented in full support of the execution of those documents.</p>

**K. Consistency with GEF Focal Area and/or Fund(s) Strategies**

- 197. The Meloy Fund is in full support of the Biodiversity focal area of the GEF. It is most closely aligned with Program 6: Ridge to Reef+: Maintaining Integrity and Function of Globally Significant Coral Reef Ecosystems, and it expands on successful private sector approaches such as the Coastal Fisheries Initiative (CFI).
- 198. The project is also closely aligned with the Convention on Biological Diversity's (CBD) programs of work for marine and coastal biodiversity. By tying investments directly to sustainable fisheries management and key biodiversity habitat protection, the Meloy Fund provides a clear link between its investments and a reduction in fishing pressure in coral reef ecosystems. The project will contribute to the achievement of the following Aichi Biodiversity Targets under Strategic Goals A, B, C and D:
  - Target 1: By raising awareness of the value of biodiversity and targeting behavior changes that result in more sustainable use of biodiversity (linked to Outcome and Target 2.1 in the Results Framework);

- **Target 6:** By incentivizing the improved management of coral reef ecosystems so that overfishing is avoided and community-led fisheries management plans are in place that take into account vulnerable ecosystems (linked to Outcome and Target 1.1 in the Results Framework);
- **Target 10:** By maintaining or improving ecosystem health and biodiversity in coral reef ecosystems (linked to Outcome and Target 2.2 in the Results Framework);
- **Target 11:** By incentivizing the creation of and compliance with TURF + reserve systems that designate on average 20 percent of the area to fully protected NTZs, contributing to the CBD/Aichi goal of 10 percent MPA coverage (linked to Outcome and Target 2.2 in the Results Framework); and
- **Target 14:** By incentivizing the creation of and compliance with community-managed TURF + reserves that allow coastal fisheries to recover and contribute to the restoration of ecosystem services and livelihood benefits to local communities (linked to Outcome and Target 1.1 in the Results Framework).

#### **L. Linkages with other GEF Projects and Relevant Initiatives**

199. The Meloy Fund will coordinate closely with other GEF projects active in the Philippines and Indonesia. The projects listed below are focused on management, governance and policies that are all key to a successful investment. Staying engaged in the projects as they evolve will help the Meloy Fund understand the investment climate, prioritize investments based on the conservation criteria and understand which market actors have significant impact and potential to succeed.
200. Rare is already collaborating closely with several marine projects, providing support for establishing proper management and governance regimes, as well as motivating adoption of improved fishing practice. As this work provides the technical criteria the fund will use to identify and filter potential investments, the fund manager will keep abreast of the progress of these projects and coordinate with project implementers to understand which opportunities are likely to have the desired impact and returns.
201. It is expected that similar projects being executed in Indonesia and Philippines may become strong partners with the Meloy Fund, in so far, they are seeking to develop sustainable private sector businesses that may positively impact small-scale fisheries. Specific collaboration opportunities will depend on the region in which these projects operate (and their overlap with sites of investment), as well as stage of development, but broadly speaking they are likely to involve the following areas:
  - **Investment sourcing:** Identification or development of potential investment opportunities for the Meloy Fund
  - **Technical Assistance:** Support to current or prospective Meloy Fund investees by providing Business Development Services (e.g. Corporate Governance, Financial Management, Operations, etc.) or Environmental and Social support (e.g. development or implementation of Fishery Improvement Projects, improved traceability, local fishery value addition, etc.).
  - **Ecosystem development:** Development of a more supportive economic community that may provide support the development of sustainable fisheries private business. This may include supply chain development (e.g. key off-takers or input suppliers), improved legal support (e.g. more friendly laws, stricter enforcement of seafood regulation), and the establishment of other stakeholders who may support sustainable seafood enterprises (e.g. sustainable seafood trade shows, think tanks).

**Table 7: Other Relevant Projects and Initiatives**

GEF Projects, Other Projects/Initiatives	Linkages	Coordination
Enabling Transboundary Cooperation for Sustainable Management of the Indonesian Seas	Facilitate the implementation of ecosystem approaches to fisheries and coastal management (EAFM/EBM) in the Indonesian Seas Large Marine Ecosystem (ISLME) to ensure the sustainable development of ecosystem resources through a TDA/SAP	Rare has worked with the FAO to align site level work and is participating in project implementation. There will be regular coordination meetings with the national project coordinator/office. The Meloy Fund may find investment opportunities connected to the work of this project.
Strengthening the Marine Protected Area System to Conserve Marine Key Biodiversity Areas	Strengthens the conservation, protection and management of Key Marine Biodiversity Areas in the Philippines	Rare is partnering directly with DENR to implement one of the Tañon Strait portion of this project, thus will be collaborating closely with the project. Introducing new access to capital through the Meloy Fund could help boost local economies in a way that is complementary to achieving the desired outcome of diversified revenue. There is potential for the fund to make investments that would sustain impact from this project.
CTI: Coral Reef Rehabilitation and Management Program- Coral Triangle Initiative, Phase III (COREMAP-CTI III)	Sustainable management of coral reef resources, associated ecosystems and biodiversity for the welfare of communities in selected districts	Rare is working closely with the Indonesian MMAF to pilot managed access approaches under COREMAP, including leading a dialogue about community rights based management in Indonesia and strengthening capacity of MMAF staff to support the rollout of new approaches. Close collaboration with MMAF on implementation will allow the fund to identify potential investments that would support COREMAP outcomes.

LME-EA Coral Triangle Initiative Project (COREMAPIII-CTI)	Identify and improve management of priority seascapes, including through the application of EAFM and the establishment of MPAs.	Rare is working closely with the Indonesian MMAF to pilot managed access approaches under COREMAP, including leading a dialogue about community rights based management in Indonesia and strengthening capacity of MMAF staff to support the rollout of new approaches. Close collaboration with MMAF on implementation will allow the fund to potentially identify investments that would support COREMAP outcomes.
4th Operational Phase of the GEF Small Grants Programme (RAF2)	Global environmental benefits in biodiversity and climate change focal areas secured through community-based initiatives and actions.	Rare collaborates closely with the Small Grants Program in country to support partner communities to apply for SGP funding. Where there is a legitimate market opportunity connected to one of these local projects our Indonesia team can engage the Meloy Fund manager, as well.
LME-EA Scaling Up Partnership Investments for Sustainable Development of the Large Marine Ecosystems of East Asia and their Coasts (PROGRAM)	The project seeks to increase sustainably managed seascapes that integrate biodiversity, develop national and local development plans that integrate biodiversity and promote financial sustainability	The Meloy Fund will reach out to the implementers of this project to help them understand the investment criteria and priorities of the fund as the project may be a source of investment opportunities for the fund based on the management criteria they are pursuing.
Capturing Coral Reef and Related Ecosystem Services (CCRES)	To introduce innovation in valuing and conserving coral reef ecosystem services through demonstration pilots and market incentives in East Asia/Pacific.	The Meloy Fund will reach out to the implementers of this project to help them understand the investment criteria and priorities of the fund as the project may be a source of investment opportunities for the fund based on the ecosystem services approach taken by the project.
Establishment and Operation of a Regional System of Fisheries Refugia in the South China Sea and Gulf of Thailand	To operate and expand the network of fisheries refugia in the South China Sea and Gulf of Thailand for the improved management of fisheries and critical marine habitats linkages to achieve the medium and longer-term goals of the fisheries component of the Strategic Action Programme for the South China Sea.	The Meloy Fund will reach out to the implementers of this project to help them understand the investment criteria and priorities of the fund as the project may be a source of investment opportunities for the fund based on the management criteria they are pursuing.

<p>EAS: Scaling up the Implementation of the Sustainable Development Strategy for the Seas of East Asia</p>	<p>To catalyze actions and investments at the regional, national and local levels to rehabilitate and sustain coastal and marine ecosystem services and build a sustainable coastal and ocean-based blue economy in the East Asian region, in accordance with the Sustainable Development Strategy for the Seas of East Asia (SDS-SEA).</p>	<p>Rare has discussed collaboration with this project at a local level. Based on the project approach, there may be investment opportunities for the Meloy Fund related to the work of this project.</p>
<p>Implementation of the Arafura and Timor Seas Regional and National Strategic Action Programs</p>	<p>To enhance sustainable development of the Arafura-Timor Seas (ATS) region to protect biodiversity and improve the quality of life of its inhabitants through restoration, conservation and sustainable management of marine-coastal ecosystems (as indicated in the SAP).</p>	<p>The Meloy Fund will reach out to the project implementers to make them aware of the fund and understand any potential collaboration. The project might be a source of potential investments depending on adherence to the investment criteria.</p>
<p>CFI: Coastal Fisheries Initiative (PROGRAM)</p>	<p>To Demonstrate Holistic Ecosystem Based Management and Improved Governance of Coastal Fisheries</p>	<p>Rare has been a partner to the GEF and implementing agencies involved in the development of the CFI, and has been named as a partner in the Indonesian CFI pilot. The approach of the CFI in near shore fisheries is closely aligned with the investment criteria of the Meloy Fund and there is potential for investment opportunities for the fund to arise from the CFI. The Meloy Fund is different from the non-grant mechanism of the CFI due to its connection to on-the-ground implementation and focus on near shore biodiversity, but the funds are likely to collaborate.</p>
<p>CFI Indonesia: Blue Abadi Fund</p>	<p>Once operational, the Blue Abadi Fund will support the following activities:</p> <ul style="list-style-type: none"> <li>• The Blue Abadi Fund will support MPA management authorities to enforce fisheries management regulations established throughout the 3.6 million hectare BHS MPA network, including spatial fisheries management, traditional management practices (ex: sasi), gear restrictions, vessel restrictions, and species-specific regulations. This will include: <ul style="list-style-type: none"> <li>a) Enforcement: Community and government patrols of 3.6M</li> </ul> </li> </ul>	<p>The Meloy Fund will reach out to the Blue Adabi Fund project implementers to make them aware of the Meloy Fund and consider opportunities for potential collaboration.</p> <p>Although the Meloy Fund and the Blue Adabi Fund support a similar goal of enhanced biodiversity, their approaches are distinct from each other in several ways:</p> <ul style="list-style-type: none"> <li>• The Meloy Fund is an investment fund, which makes loans and takes equity</li> </ul>

	<p>ha of MPAs. Each site will be patrolled a minimum of once per week.</p> <p>b) Monitoring: Community fisheries monitoring, Spawning Aggregation Monitoring (SPAGs), and Resource Use Monitoring.</p> <ul style="list-style-type: none"> <li>• The Blue Abadi Fund will support Capacity Development activities for local fishers and government MPA and fisheries managers</li> <li>• Through a small grants facility, The Blue Abadi Fund will support innovative sustainable fisheries pilot projects led by Papuan organizations.</li> <li>• The Blue Abadi fund will support fisheries production through the direct protection of 3.6 million hectares (36,000km<sup>2</sup>) of critical marine ecosystems within the BHS MPA network. Within this MPA network, 20-30 percent has been fully protected as NTZs to support fisheries replenishment, with the remainder set aside for sustainable use by local fishers only.</li> </ul>	<p>positions in enterprises which support improved fisheries management and local communities, en route to better biodiversity protection.</p> <ul style="list-style-type: none"> <li>• In contrast, the Blue Adabi Fund is a trust fund, which creates an annuity that funds, in perpetuity, marine protected area management.</li> <li>• Further, the Meloy Fund is funded by investors, has a discreet lifecycle, and is managed by investment professionals.</li> <li>• The Blue Adabi Fund, on the other hand, will be governed by a mix of stakeholders that have various roles in the administration and management of marine parks.</li> <li>• Geographically, the Blue Adabi Fund funds activities in the Birdshad Seascape, and the Meloy Fund will consider investments in any region of Indonesia that meets investment criteria.</li> </ul> <p>During the project development phase, the Meloy Fund development team met with representatives from the Blue Adabi Fund, to exchange ideas and discuss the potential for future collaboration wherever relevant, including where there is overlap in geography, fund recipient, or otherwise. Please see Stakeholder Engagement in Appendix VIII.</p>
CFI Challenge Fund	<p>The CFI Challenge Fund Project aims to:</p> <ul style="list-style-type: none"> <li>• support governance and sustainable fisheries management reforms within or across the CFI countries; and</li> <li>• pilot models for accelerating financially- and environmentally-sustainable investments in the fishery sector.</li> </ul>	<p>During the project development phase, the Meloy Fund development team met with representatives from the Challenge Fund, to exchange ideas and discuss the potential for future collaboration wherever relevant. The Meloy Fund will especially seek to collaborate on Technical Assistance to potential or current investees, where there</p>

	<p>The Fund aims to invest between 0.75 and 2.0 + million USD in possible investment projects in the 6 CFI countries. On the basis of agreed selection criteria, a competitive process will be used to disburse the funds with the aim to maximize the leveraging of the Challenge Fund with other initiatives in the regions.</p> <p>The four major components of the Challenge Fund are:</p> <ul style="list-style-type: none"> <li>• Analytical and advisory support facility</li> <li>• Grants facility</li> <li>• Investment selection, supervision and monitoring and evaluation facility; and</li> <li>• South-South knowledge sharing and learning</li> </ul>	<p>is overlap in geography, and fund recipient. Please see Stakeholder Engagement in Appendix VIII.</p>
<p>GEF-UNDP Global Sustainable Supply Chains for Marine Commodities (GEF #5271)</p>	<p>Working at a global scale with pilot efforts in four countries, including Indonesia and the Philippines, the project aims to:</p> <ul style="list-style-type: none"> <li>• Promote Global Demand for Sustainable Marine Commodities;</li> <li>• Strengthen Enabling Environments for Sustainable Marine Commodities Supply Chains;</li> <li>• Demonstrate Sustainable Supply Chains for Marine Commodities;</li> <li>• Improve Sustainable Marine Commodities Information and Knowledge Management Systems.</li> </ul>	<p>Rare has been in conversations with SFP and will ensure the Meloy Fund reaches out to project implementers to identify areas for collaboration and share lessons learned. This project is more global in scale than the Meloy Fund and, in most cases, will be targeting different species, but especially where the Meloy Fund overlaps in geographic region and/or supply chain, there may be opportunities for the project to complement each other.</p> <p>Throughout the project's implementation, Rare will continue to explore ways in which these two projects can collaborate.</p>
<p>LME-EA Philippine Rural Development Program</p>	<p>The Philippine Rural Development Project aims to increase rural incomes and enhance farm and fishery productivity in the targeted areas.</p> <p>The GEF supported interventions under the PRDP covers six target sites, seven provinces, twenty-one Municipal LGUs and thirty-three MPAs within the six regions in the Luzon B and Visayas areas. The PRDP-GEF major objectives are to</p>	<p>At the end of 2016, Rare signed an agreement to implement the following PDRP activities under the 2017 work plan: i) update necessary information relative to Integrated Coastal and Fisheries Resources Management and Sustainability Plans; ii) initiate consultations with project key stakeholders such as the LGUs, community beneficiaries and</p>

	<p>strengthen the conservation of natural resources and biodiversity in targeted program areas through (i) enhancing institutional and planning capacities of LGUs together with communities; (ii) providing support to MPAs in particular areas of global biodiversity significance and select fishery co-management arrangements; and (iii) sharing of knowledge and best practices.</p>	<p>other relevant agencies; iii) facilitate the creation of multi-sector LGU-based GEF-Natural Resource Management (NRM) Technical Working Groups; iv) facilitate the LGU-initiated participatory strategic planning workshops, and drafting and packaging of the LGUs' Integrated Coastal and Fisheries Resources Management Cum Sustainability Plan and Strategic Awareness Campaign Management Approaches, and the formulation of appropriate Policies, Systems and Procedures for Effective Coastal &amp; Marine Ecosystems Management.</p>
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### M. Consistency and Alignment with CI Institutional Priorities

202. The Meloy Fund is very well aligned with Conservation International's (CI) institutional mission and expertise. CI has been working for over a decade in more 25 countries to sustainably and equitably manage oceans and coasts for the benefit of people and nature. With an extensive network of ocean programs around the world, CI supports the creation and management of ocean places that harbor globally exceptional natural resources and are critically important for people's well-being.
203. Through its work, CI has directly supported the creation of 232 million hectares (573 million acres) of protected areas, where activities such as tourism, development and fishing are managed to ensure sustainability. In the Pacific, CI is advancing the Pacific Oceanscape, a commitment by 23 countries and territories to secure a future based on sustainable development, management and conservation of the ocean and islands covering an area of 10 percent of the world's ocean surface.
204. CI also works to equip decision makers — from indigenous leaders to policymakers — with accessible, evidence-based tools to actively engage in ocean management and governance. Thus, in 2012, CI launched the Ocean Health Index (OHI), the first assessment tool that combines and compares biological, physical, economic and social elements of the ocean's health to measure how sustainably people are using it. The OHI enables the smart, sustainable management essential to providing the resources and services we need now and in the future.
205. Coastal ecosystems provide protection from climate-driven extreme weather events while improving local fisheries. These ecosystems store up to 10 times more carbon — called "blue carbon" — per hectare than terrestrial forests, and degradation of these ecosystems accounts for up to 19 percent of carbon emissions from global deforestation. CI is demonstrating the importance of ecosystem-based approaches to address the impacts of climate change, including the use of coastal ecosystems to better protect communities from extreme weather. CI, along with IUCN and IOC-UNESCO, leads the Blue Carbon Initiative, a collaborative international effort focused on mitigating climate change by conserving and restoring coastal ecosystems.

206. CI has been working with non-grant instruments since 1999, when it launched the USD 1 million Conservation Enterprise Fund (CEF), with financial support from the IFC/GEF's SME program, to augment our successful efforts in conservation enterprise development. The CEF includes a credit fund targeting investment in agroforestry (shade coffee and cocoa), ecotourism and non-timber forest product enterprises lacking access to commercial credit. Since then, the CEF, renamed the Verde Ventures Fund (VV) in 2000, has provided 121 loans to 51 sustainable Small and Medium Enterprises (SME's) in 14 countries. VV has deployed over USD 23 million in debt finance allocated to Latin America (89 percent), Africa (6 percent) and Asia (5 percent). The main focuses are on sustainable agriculture (85 percent), ecotourism (10 percent) and wild harvested Non-Timber Forest Products (NTFP) (4 percent). VV has protected biodiversity and promoted sustainable land use practices on over 900,000 hectares, provided conservation management for 482 IUCN Red-listed Species, and benefited nearly 60,000 people through employment generation and support.
207. To scale VV's model, CI, Finance in Motion, and KfW together founded the Eco.business Fund in 2014. The Fund, which currently has assets under management of 17 million Euro, enables businesses in Latin America to make investments that contribute to preserving biodiversity and the sustainable use of natural resources – for example, in agriculture, forestry and fishing, as well as in eco-tourism. With over 15 years of experience investing in risky sectors in developing economies with very high repayment rates, VV has developed a mature investment process.

#### **N. Communications and Knowledge Management**

208. Rare has a long-standing commitment to transparency. The campaigns we support are very public, engaging all parts of the community and utilizing various tools to engage multiple audiences. This spirit of transparency carries through to our fisheries and markets work as well. As a training and marketing organization, Rare has a depth of experience sharing its work and communicating how it contributes to implementation of global conservation targets. We also have in-house expertise in adult learning to ensure that any exchanges achieve desired learning objectives.
209. The project development team is currently crafting a strategy to share our learnings from the Meloy Fund. This multi-pronged strategy will include several key components:

- Events and Convenings:

In 2017 for example, Rare staff plan to participate in several key events as both panelists and attendees. These include the World Ocean Summit, the Boston Seafood Expo and the SeaWeb Seafood Summit. We plan to engage key stakeholders, such as investees, via webinars and calls to share knowledge and best practices in an accessible way given the dispersed nature of these groups.

In addition to the summits listed above, Rare will also look to promote the work of the Fund and its investees within the international arena, such as at the Development Finance Forum, the Convention on Biological Diversity (CBD) conferences (eg. CBD Conference of Parties, Subsidiary Body on Scientific, Technical and Technological Advice – SBSTTA) and/or other biodiversity/conservation finance focused events.

- Press Releases:

Following the Meloy Fund's first investment in Meliomar, a press release was made, which was picked up in several outlets and shared by Rare via various channels (eg. social media and

through one-on-ones with key stakeholders). Additionally, other partner organizations such as Bloomberg Philanthropies have shared the press release as well. Please follow the link for access to the press release: [www.prweb.com/releases/2016/12/prweb13928901.htm](http://www.prweb.com/releases/2016/12/prweb13928901.htm). The Fund plans to create similar press releases for all future deals made through the Fund.

Most recently, following the Fund's first close (August 2017), a press release on the launch of the Fund was widely distributed through several media outlets. The project coordinated closely with the GEF Secretariat to ensure the press release was also distributed through its relevant channels. Please follow the link for access to the press release: <http://www.prweb.com/releases/prweb14562946.htm>. The Project team will continue to collaborate closely with the GEF Secretariat for all future press releases.

- Websites:  
In addition to a page dedicated to the Meloy Fund on Rare's website ([www.rare.org/meloy-fund](http://www.rare.org/meloy-fund)), Rare is exploring the creation of a separate, standalone website for the Meloy Fund, which would include a private portal for Fund investors.
- Thought Leadership Pieces and Other Publications:  
Rare plans to share lesson learned from the Meloy Fund with key stakeholders, including the GEF Secretariat, the Japanese International Cooperation Agency (JICA), impact investment organizations, relevant projects (i.e. the CFI Blue Abadi Fund, the Athelia Fund, the CFI Challenge Fund), and other conservation organizations, via a series of self-published white papers, which will be available on our website. The first one will be the final Fund's E&S Guidelines which was originally shared among a reduced group in the Bali World Ocean Summit on February 2017.
- Advisor and Other Strategic Engagements:  
Rare's informal advisory group, Eco-Impact Investors Circle, has been regularly engaged during the development of the Meloy Fund, and we will continue to provide them updates and seek their advice as the Fund progresses. Additionally, we are working to establish in-country advisory groups in both the Philippines and Indonesia. We are also members of the Coalition on Private Investment Conservation (CPIC) and have been engaged with this group through a variety of in-person and remote meetings.

To encourage peer-to-peer knowledge sharing, as supplemental funds allow, the Fund will explore possibilities for convening regular private sector forums or workshops, whereby investees would have the opportunity to learn from one another and across country boundaries.

## **O. Lessons Learned During the PPG Phase and from other Relevant GEF Projects**

210. With their unique global capabilities and program expertise, NGOs like Rare can play multiple roles in the impact investing ecosystem including as investors, donor-funded development partners, and market builders. In this sense, Rare capabilities are multi-faceted: a) knowledge of local environments; b) long-standing networks and sophistication in partnering with multiple actors; and c) experience in complex, multi-year measurement of impact. Synergies between Rare and the Meloy Fund, or other NGOs and their impact funds, are key for their long-term success. However, NGOs like Rare also face important challenges when setting up an impact investing fund such as

organizational culture, stakeholder communications, legal structure, and confusion between fundraising priorities. All these issues need to be dealt through careful consideration of all active stakeholders. Fisheries impact investing is not yet developed enough and therefore there are limited examples of E&S standards for investors working in this sector. During project development, this presented both a challenge as well an opportunity to further develop and lead within this field.

211. In addition, given that the non-grant instrument (NGI), and the types of projects that are typically developed under it, is very different (i.e. in type of financing, technical scope, approach etc.) than standard GEF grant funded projects, it would be helpful if a specifically tailored ProDoc template for the NGI is agreed upon with the GEF Secretariat.

## SECTION 4: COMPLIANCE WITH CI-GEF PROJECT AGENCY'S ENVIRONMENTAL AND SOCIAL MANAGEMENT FRAMEWORK (ESMF)

### A. Safeguards Screening Results and Categorization

213. The safeguard screening process was initially conducted in July 2016 and then was updated in January 2017 by the CI-GEF Project Agency. The full results are presented in Appendix IV and summarized in Tables 8 and 9 below.

**Table 8: Safeguard Screening Results**

Policy/Best Practice	Triggered (Yes/No)	Justification
<i>Environmental and Social Impact Assessment Policy</i>	No	
<i>Protection of Natural Habitats Policy</i>	No	
<i>Involuntary Resettlement Policy</i>	Yes	<p>This project may trigger restriction of access to and use of natural resources. This is can be a sensitive issue, particularly for people whose survival and livelihood depend on such resources. Stakeholder engagement will be important here and should be among the very first set of activities. The resource users need to be aware upfront of the project and how it will affect them, and the project in turn will need to address their concerns. As such, the project is required to prepare a simplified Process Framework document. This document will form the basis from which restriction of access to and use of natural resources criteria should be extracted and included in the Fund's E&amp;S Guidelines for borrowers to comply with.</p> <p>In addition, the overall project should monitor and report on the following indicators:</p> <ul style="list-style-type: none"> <li>• Percentage of sites where a formalized decision-making process regarding natural resource use and access was facilitated by Rare/Fish Forever</li> <li>• Percentage of sites where a decision regarding natural resource use and access rights was achieved</li> <li>• Percentage of sites that have a high level of satisfaction with the decision achieved</li> </ul>
<i>Indigenous Peoples Policy</i>	Yes	<p>This project may affect indigenous peoples and communities. As such, the project is required to prepare a simplified IPP and highlight how the overall project will ensure Free, Prior and Informed Consent (FPIC) is followed and documented. This simplified IPP will form the basis from which indigenous people criteria should be extracted and included in the Fund's E&amp;S Guidelines for borrowers to comply with.</p> <p>In addition, the overall project should monitor and report on the following minimum indigenous people indicators:</p>

		<ul style="list-style-type: none"> <li>Percentage of indigenous/local communities where FPIC have been followed and documented; and</li> <li>Percentage of communities where project benefit sharing has been agreed upon through the appropriate community governance mechanisms and documented</li> </ul>
<i>Pest Management Policy</i>	No	
<i>Physical Cultural Resources Policy</i>	No	
<i>Stakeholder Engagement</i>	Yes	<p>A Stakeholder Engagement Plan (SEP) is required for all GEF funded projects. As such, the project is required to prepare a simplified SEP, which maps stakeholders and highlights how the overall project will engage with stakeholders. This simplified SEP will form the basis from which stakeholder engagement criteria should be extracted and included in the Fund’s E&amp;S Guidelines for borrowers to comply with.</p> <p>In addition, the overall project should monitor and report on the following minimum stakeholder engagement indicators:</p> <ul style="list-style-type: none"> <li>Number of government agencies, civil society organizations, private sector, indigenous peoples and other stakeholder groups that have been involved in the project:</li> <li>Number persons (sex disaggregated) that have been involved in project implementation phase (on an annual basis); and</li> <li>Number of engagements (e.g. meeting, workshops, consultations) with stakeholders.</li> </ul>
<i>Gender Mainstreaming</i>	Yes	<p>A Gender Mainstreaming Plan (GMP) is required for all GEF funded projects. As such, the project is required to prepare a simplified GMP/desk assessment and highlight how the overall project will address gender issues. This assessment will form the basis from which gender criteria should be extracted and included in the Fund’s ESG Guidelines for borrowers to comply with.</p> <p>In addition, the overall project should monitor and report on the following minimum gender indicators:</p> <ul style="list-style-type: none"> <li>Number of men and women that participated in project activities (e.g. meetings, workshops, consultations);</li> <li>Number of men and women that received benefits (e.g. employment, income generating activities, training, access to natural resources, land tenure or resource rights, equipment, leadership roles) from the project; and if relevant</li> <li>Number of strategies, plans (e.g. management plans and land use plans) and policies derived from the project that include gender considerations.</li> </ul>
<i>Grievance Mechanism</i>	Yes	<p>An Accountability and Grievance Mechanism is required to ensure people affected by the project are able to bring their grievances to the Executing Entity for consideration and redress. While the project will adhere to the Institutional Limited Partners Association’s principles and follow applicable Practice Standards</p>

	<p>for Conservation Trust Funds, these mechanisms must be outlined, approved by the CI-GEF Agency and in place before the start of project activities, and also disclosed to all stakeholders in a manner/means that best suits the local context.</p> <p>In addition, the overall project should monitor and report on the following minimum accountability and grievance indicators:</p> <ul style="list-style-type: none"> <li>• Number of conflict and complaint cases (Accountability and Grievance) reported to the project’s Accountability and Grievance Mechanism; and</li> <li>• Percentage of conflict and complaint cases reported to the project’s Accountability and Grievance Mechanism that have been addressed.</li> </ul> <p>Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people:</p> <ul style="list-style-type: none"> <li>• The key stakeholders are the government, technical expert network, conservation partners, fisher cooperatives, fish aggregators and processors, early stage enterprises, buyers, seafood business experts, fisheries certifiers, corporate sector, women groups, indigenous peoples, local communities, research agencies, and NGOs.</li> </ul> <p>The mechanisms for consultation and disclosure should be culturally appropriate, gender sensitive, effective, and in keeping with local customs. Engagement can take the form of village meetings, group meetings, workshops, interviews/surveys, etc. and done using local languages and methods. The Executing Entity should take these contexts into consideration when designing engagement activities.</p>
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214. CI-GEF Project Agency concluded the overall project category to be “Category C” as a result of the safeguard screening process.

**Table 9: Safeguard Categorization**

PROJECT CATEGORY	Category A	Category B	Category C
			<b>x</b>
<i>Justification:</i> The proposed project activities are likely to have minimal or no adverse environmental and social impacts.			

## B. Compliance with Safeguard Recommendations

215. In addition to its projected financial returns, the Meloy Fund is expected to generate significant environmental and social returns by incentivizing the rapid adoption of sustainable fisheries management practices. Given the non-grant nature of this project, having each borrower prepare detailed safeguard plans could be a deterrent to their participating in the project. As such, the Executing Agency has prepared simplified safeguard plans for the overall project and then extracted from these plans, principles that are included within the Fund's Environmental and Social (E&S) Guidelines for borrowers to comply with. Please see Appendix V for the E&S Guidelines and Appendices VI – X for safeguard compliance plans.

### Environmental and Social (E&S) Guidelines

216. To set baselines, trajectories, and a monitoring framework that helps to ensure targets are achieved, the Meloy Fund has developed a novel E&S Guidelines. The Fund's E&S standards are designed to ensure that for the Fund's investees:

- Clear minimum standards for sourcing sustainable fish, or otherwise participating in the fishing supply chain, are agreed upon and monitored;
- General environmental and social minimums are met regarding the holistic impact of an investee's operations;
- Impact targets related to the use of the investment and expectations of growth over time are agreed upon, which in some cases may inform financial rewards or penalties, and
- A comprehensive multi-stakeholder roadmap is produced and implemented to ensure fisheries recovery over time (via a FIP).

217. The Fund's E&S Guidelines are based on the following three pillars:

1. Meloy Fund E&S Minimum Standards: These standards seek to enshrine in the investee a "no-harm" principle, and include minimum fisheries-specific standards, applicable to fisheries from which the investee sources seafood, and general environmental and social standards, applicable to the investees' entire operations.
2. Investee Annual Impact Goals: Will set annual impact goals for every investment, which ultimately roll up to the Meloy Fund's own impact goals (to have a positive impact on the lives of 100,000 fishers and their household members, and place 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems under improved sustainable management).
3. Fishery Improvement Project (FIP) development and implementation: To catalyze the adoption of sustainable fisheries, the Meloy Fund, the Fund investees, and Fish Forever<sup>94</sup> will jointly commit to actively developing FIPs (as defined by the Conservation Alliance for Seafood Solutions) for key target species relevant to the targeted impact of the Meloy Fund's investment.

218. To ensure the effective compliance and implementation of the E&S Guidelines, the Meloy Fund will develop specific processes for each of the three pillars described above. These processes are relevant throughout all stages in the life of an investment, i.e. due diligence, investment structuring, and investment supervision.

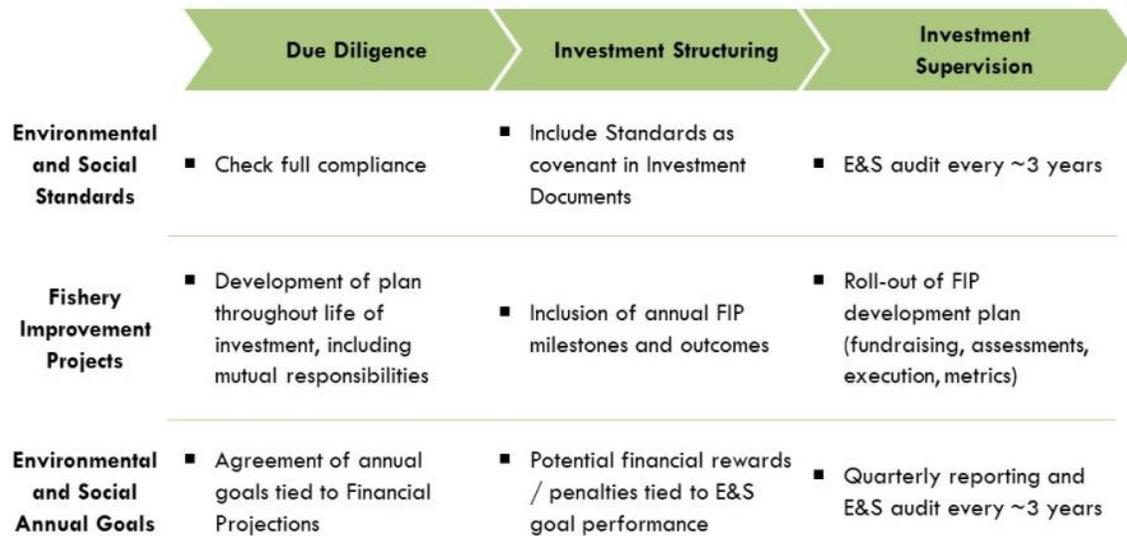
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<sup>94</sup> Fish Forever is Rare's global coastal sustainable fisheries program. It provides on-the-ground training, support, and community engagement for fisheries management and ensures that benefits accrue to local communities as well as to the environment.

219. During due diligence, the Meloy Fund investment team will conduct a full analysis of the prospective investee to appraise the risk of a potential investment. Although this analysis is typically done from a financial standpoint, the Fund will also include a full E&S analysis designed to assess the investee's ability to comply with E&S minimum standards, and to understand the potential for impact given the investment under consideration. If at the outset the prospective investee is not fully compliant with any of the standards, the investment team and the prospective investee will develop a plan to remedy the latter's non-compliance before an investment can move forward.
220. Further, the Meloy Fund's financial model for the investment build during due diligence includes an analysis of the annual impact potential, which changes over time based on the company's projected financial performance.
221. Importantly, any term sheet offered by the Meloy Fund will include detailed covenants related to adhering to the Fund's minimum standards and proposed annual impact goals, as well as any potential financial rewards or penalties as applicable due to their achievement.
222. After an investment is approved by the Fund, during the investment supervision stage the investee will be required to report on its progress against its annual impact goals, typically on a quarterly basis. To ensure the investee's full compliance with the Fund's minimum standards and the accuracy of reported impacts, investees will be subject to an Environmental and Social audit every three years. These audits are expected to be completed by expert third parties to be hired locally.
223. Finally, the investment team and the investee will collaborate to roll-out the FIP roadmap as defined in the investment agreement between both parties. Depending on the needs of each investee this may involve fundraising, impact assessment, execution support, and collection of metrics.
224. Throughout the investment supervision stage, there may be instances of non-compliance with the Meloy Fund's E&S minimum standards, agreed upon impact goals, or the FIP roadmap. In these cases, the Fund will have a constructive approach and seek to constructively support the company in remedying its non-compliance. Generally, the curation period will be between 30 days to 6 months – tied to the gravity of the specific non-compliance. Longer curation periods may be selectively approved by Meloy Fund senior management.
225. The additional costs of systematically implementing these E&S Guidelines across its portfolio have been partially included in the budget of the Meloy Fund GP by allocating a portion of the time from the investment team.
226. That said, due to the size of the Meloy Fund and its commitment to operationalizing and supervising the achievement of these guidelines, the Fund's operating budget is not expected to be able to cover all necessary activities, and will actively seek partnerships and other sources of complimentary funding to defray costs.

227. The following monitoring and reporting process will be ongoing throughout the life of the investment:

**Figure 5: Meloy Fund Environmental and Social (E&S) Guidelines Implementation**



Safeguard Compliance Plan Summaries

228. During the PPG phase the project development team developed the following safeguard plans:

- Involuntary Resettlement and Restriction of Access to Natural Resources
- Accountability and Grievance Mechanism
- Stakeholder Engagement
- Gender Mainstreaming
- Indigenous Peoples

A summary of these plans is presented below. The full versions are included as Appendices, as noted below.

- Summary of Involuntary Resettlement and Restriction of Access to Natural Resources Plan (full details in Appendix VI)

229. Under Fish Forever, affected local communities (including Indigenous Peoples) are directly involved in the design, declaration, and management of the TURF + reserves, their zoning and enforcement systems. TURF boundaries follow traditional tenure lines and are established through a bottom up, participatory process, based on best available scientific data, local ecological knowledge and agreed community goals for the TURF + reserve. Fish Forever also works to ensure that traceable and transparent participatory processes for decision making regarding the TURF + reserve management, as well as multi-stakeholder TURF + reserve management bodies with clearly defined authority and responsibilities are put in place with participation from the local fishing community.

230. In addition, to ensure jointly developed management frameworks in the communities from which the investees source, a close three-way partnership between the Meloy Fund, the investee, and Rare’s Fish Forever program is needed.
- Summary of the Stakeholder Engagement Plan (full details in Appendix VIII)
231. Stakeholder engagement is a fundamental principle of good project design, and it is best practice to involve all stakeholders, including indigenous and other affected communities, as well as government, private sector and civil society partners, as early as possible in the preparation process and ensuring that their views and concerns are made known and considered. Both the Meloy Fund and Fish Forever believe that local populations and communities should have their say about projects that can affect their lives and that in return their involvement at an early stage can significantly improve the profitability and overall strength of the projects. The extent and nature of the stakeholder consultation required throughout the roll-out of the Fund’s investments will depend on the results of the due diligence conducted on the investments. Furthermore, stakeholder engagement is a key success factor throughout the FIP development and implementation, and is therefore included as a “core component” of the entire FIP process.
- Summary of the Gender Mainstreaming Plan (full details in Appendix IX)
232. The Meloy Fund and Fish Forever recognize that both men and women are equally important stakeholders and supports the rights of both men and women in local communities to manage their coastal resources. Ensuring that both men and women have equal opportunities to participate in and benefit from the Meloy Fund can be achieved by mainstreaming gender dimensions throughout the investment and FIP development process.
- Summary of the Indigenous Peoples Plan (full details in Appendix X)
233. Fish Forever hinges on the engagement of local fishing communities, and empowers the targeted communities to manage their marine resources, while integrating traditional knowledge and governance into the management process. Given that Indigenous Peoples are often disproportionately represented and are among the most marginalized and vulnerable segments of the population, as feasible, the Meloy Fund will aim to increase their access as potential direct borrowers or business partners in Meloy Fund financing, while also ensuring that they are not adversely impacted in the short or long-term by investments made through the Fund. The project will also follow FPIC standards for engagements with affected communities (including Indigenous Peoples) as related to specific investments as well as the development of FIPs.

Safeguard Criteria/Principles as Reflected in the E&S Guidelines

234. As noted above, principles from the safeguard plans have been integrated into Fund’s E&S Guidelines for borrowers to comply with. These requirements as included within the E&S Guidelines are outlined in the table below.

**Table 10: Alignment of Safeguard Plans with the Fund’s E&S Minimum Standards**

E&S MINIMUM STANDARDS NUMBER	MELOY FUND E&S GUIDELINES MINIMUM STANDARDS	SAFEGUARDS PLANS				
		Restriction of Access to Natural Resources	Indigenous Peoples	Stakeholder Engagement	Gender Mainstreaming	Accountability and Grievance
1.1.6	The fishery product must not be a staple food and/or a primary source of protein for the local population and hence not interfere with the food security of human populations where the product originates					
1.2.6	The investee will treat employees and suppliers fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, color, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status. The investee will not support investment activities that cause gender-related adverse impacts.					
1.2.10	The investee will work to enhance positive development impact effects on the environment, employees, and all stakeholders (including Indigenous Peoples and Affected Communities) by adopting policies and committing to continuous improvements on environmental and social matters.					
1.2.11	The investee will not support investment activities that cause adverse impacts on Indigenous Peoples or Affected Communities.					
1.2.12	With support from the Fund, the investee will follow the Free, Prior and Informed Consent (FPIC) standard of engagement by ensuring Indigenous Peoples’/Affected Communities’ rights to self-determination, participation and decision making.					
1.2.13	The investee will not engage in activities that a) require involuntary resettlement on land acquisition; b) would involve the taking of shelter and other assets belonging to the local communities or individuals; or c) would lead to involuntary restrictions of access to and use of natural resources.					
1.2.14	In cases where resettlement and/or the restricted access to natural resources are identified as potential impacts of an investment, the Fund will assist investees with the consultation process (using the FPIC standard of engagement) to communicate to the Affected Communities about any investments to be made and ensure community support and buy-in, prior to the investment being made.					
1.2.15	The investee will work with the Fund to resolve relevant conflicts and/or complaints that are formally submitted to the Fund’s Accountability and Grievance Mechanism.					

235. Furthermore, as outlined in Section 3 of the E&S Guidelines, throughout FIP development and implementation, consultations with the affected communities (including Indigenous Peoples as appropriate) will be held, and records of the process and outcomes will be maintained. The consultations will follow FPIC standard of engagement by ensuring Indigenous Peoples'/Affected Communities' rights to self-determination, participation, and decision-making. Additionally, the parties will ensure that men and women have equitable access to attend relevant decision-making meetings, and will consider any cultural, social, religious or gender constraints when organizing decision making forums. (Stakeholder Engagement Plan, Gender Mainstreaming Plan, Indigenous Peoples Plan)

*Compliance, Monitoring and Reporting*

236. As outlined in section 4 - Guidelines Implementation - of the E&S Guidelines, after an investment is approved by the Fund, during the investment supervision stage investees will be required to report on its progress against annual impact goals, typically on a quarterly basis. To ensure the investee's full compliance with the Fund's minimum standards and the accuracy of reported impacts, investees will be subject to an Environmental and Social audit every three years. These audits are expected to be completed by expert third parties to be hired locally.

## SECTION 5: IMPLEMENTATION AND EXECUTION ARRANGEMENTS FOR PROJECT MANAGEMENT

### A. Execution Arrangements and Partners

237. As a strategy to further Rare's charitable purpose, Rare has formed the Meloy Fund to provide small-scale fishers financial incentives to achieve sustainable management of the natural resources on which these fishers rely. Given Rare's deep experience in the sustainable fisheries sector and with conservation initiatives more broadly, the General Partner (GP) will work closely with Rare, including through Fish Forever, to provide expertise and fisheries technical assistance (TA) support to the GP and enterprises in which the Fund invests. Rare, including through Fish Forever, has developed substantial expertise related to developing comprehensive environmental, social, and financial models for community development around sustainable fisheries. It is the GP's intention to leverage Rare's depth of experience, including through Fish Forever, to support the Fund's work.
238. In addition, it is anticipated that Rare will support the investment program and subsidize a portion of GP costs (a) by raising grant funding to support the salaries of the Fund's Managing Director and Deputy Managing Director; (b) by Rare's grant support to Fish Forever; (c) through fisheries TA aimed towards enhancing the environmental and social impact of companies in which the Fund invests; and (d) providing a line of credit to the GP for Operating Expense. Additionally, some existing Rare grantors and Directors may become Limited Partners (LPs) in the Fund. As the Executing Agency of the GEF Project, Rare will provide oversight and management of all project related reporting to the GEF-CI Project Agency, as well as fisheries TA to the Fund, including pre-investment due diligence, post-investment E&S supervision, FIP development and implementation, and targeted monitoring and evaluation support at sites of overlap between the Fund and Fish Forever.
239. The GP of the Fund is the Meloy Fund I GP, LLC, a Delaware limited liability company and wholly-owned subsidiary of Rare. Rare is the sole member of the GP.

#### Fund Structure

240. LPs will have two options to invest in the Fund, depending on their legal and taxation considerations. US investors will likely invest directly in the Fund. Non-US investors making significant capital contributions may have the option to invest through a non-US domiciled fund that will invest in the Fund. The GEF funds will be directly invested in the Fund. The GP and the Fund were established as Delaware entities (formed on October 12, 2016). As the majority of the Fund's investors and the Fund's General Partner are based in the US, a Fund domiciled in Delaware was the most advantageous with regards to legal and tax liabilities. The GP will work with the LPs to ensure the appropriate handling of expected tax liabilities. Please see Figure 6 below.
241. The GP will manage the business affairs of the Fund. The GP may enter into agreements with Rare pursuant to which Rare will provide certain administrative services for Fund operations (such as office costs and benefit management), as well as technical expertise related to fisheries, including bio-economic modeling, FIP design, and social and environmental impact measurement, to maximize the Fund's intended environmental and social impact.

### Fund Governance

242. Fund governance will be set-up and managed generally in accordance with the Institutional Limited Partners Association (ILPA) Private Equity Principles.
243. The sole decision-making body of the GP on behalf of the Fund will be the Fund Investment and Management Committee (FIMC). The FIMC will include the Managing Director, Deputy Managing Director, and Fund Manager. The FIMC will be responsible for (a) the executive management of the Fund, including the development and implementation of the investment program; and (b) investment approvals and portfolio supervision.
244. Since Rare is the sole member of the GP, it will rely upon its Board of Directors to provide oversight of the GP, particularly regarding ongoing compliance with the Internal Revenue Code. Conflicts of interest between Rare and the GP will be managed according to Rare and the GP's conflicts of interest policies.
245. The FIMC will also be responsible for reporting to the LPs. Quarterly reporting will include:
- a) unaudited quarterly reports with portfolio company financial, social and environmental performance;
  - b) unaudited Fund financial accounts; and
  - c) an update on Fund performance.
246. Annual reports will include:
- a) annual reviewed financial report for the Fund;
  - b) portfolio valuation tied with a detailed analysis of the performance of each Portfolio Investment; and (f) an analysis of the Fund's environmental and social impact.

### Fund Advisory Support

247. Additional advisory support will be provided by the bodies as detailed below:

#### *Limited Partner Advisory Committee (LPAC)*

248. The LPAC will be composed of an advisory committee of representatives of the LPs appointed by the GP. Each LP with a capital commitment equal to at least USD 1 million unless otherwise determined by the GP, will be entitled to designate one member to the LPAC. It is anticipated that the LPAC will have three to seven members. The GP will appoint Rare's Chief Executive Officer (CEO), as a non-voting member of the LPAC.
249. The GP is obligated to make certain disclosures to the LPAC with respect to conflict transactions, and the LPAC will have authority to approve and review certain matters as laid out in the Partnership Agreement, including but not limited to review of (a) transactions that potentially pose conflicts of interest, such as cross-Fund investments and related-party transactions, including those between Rare and the Fund; (b) valuation methodology used for Portfolio Investments; and (c) changes in the Fund's governing documents that result in (i) extending the Fund Term; (ii) altering investment limitations; and (iii) suspending or removing the GP. The GP will retain ultimate responsibility for all decisions relating to the operation and management of the Fund, including investment decisions.
250. Given that the Partnership Agreement cannot make advance provision for all circumstances and outcomes, the GP will ensure that the appropriate mechanisms are in place to work through unforeseen conflicts as well as changes to the investment team or other Fund parameters.

251. The LPAC will not replace frequent, open communications between the GP and LPs, including reporting to all LPs, as well as the immediate disclosure of any inquiries by legal or regulatory bodies in any jurisdiction, material contingencies or liabilities arising during the Fund Term, or breach of a provision of any Fund document.

#### *Eco-Impact Investor Circle*

252. Rare's Eco-Impact Investor Circle may be engaged to help vet potential portfolio investments at the pre-term sheet stage.

#### *Regional Advisory Bodies*

253. Regional advisory bodies are being developed in Indonesia and the Philippines to help facilitate community engagement and provide robust support for pipeline development and portfolio companies.

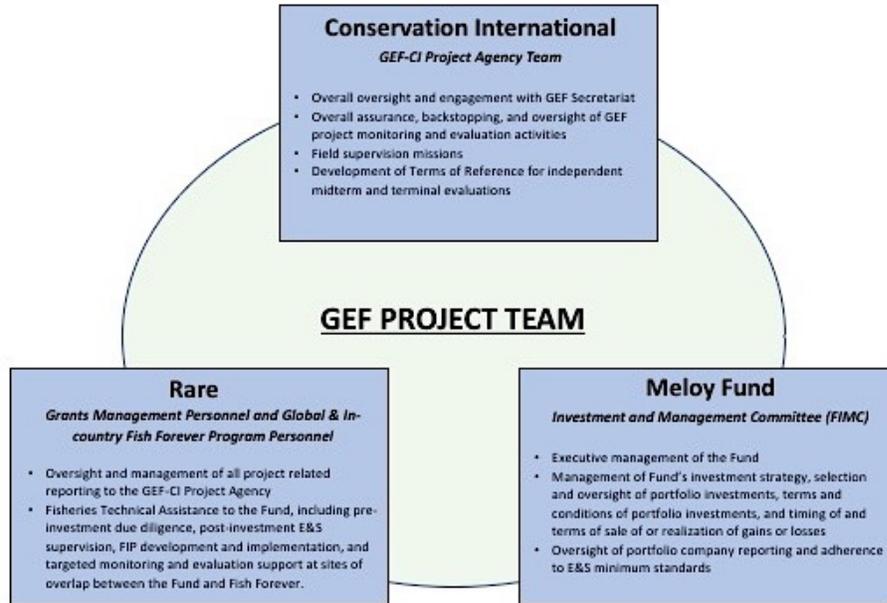
#### Fund Management

254. Under the Partnership Agreement, the GP will have sole authority to manage the Fund, including with respect to investment decisions, such as selection and oversight of Portfolio Investments, terms and conditions of Portfolio Investments and timing of and terms of sales of or realization of gains or losses on Portfolio Investments. Rare is the sole member of the GP.
255. The GP will have a dedicated fund management team, which will manage the relationship with each investee, through the origination, supervision, and exit from each portfolio investment. These individuals will be employed by Rare and engage in the activities of the GP through a services agreement between the entities. The GP anticipates engaging seven individuals as deal flow and portfolio under management grows (please see Figure 8 below).
256. The team will be led by a full-time Fund Manager, who is expected to be based out of Jakarta, Indonesia (start date was May 1, 2017). Additionally, each country will have a Portfolio Manager who will lead country operations and report to the Fund Manager. The GP intends enter into a services agreement with Rare, which will hire in-country Investment Officers and Business Development professionals within two to three years of the Final Closing.
257. The Managing Director and Deputy Managing Director are anticipated to dedicate 25-30 percent of their work time to the GP, and the remainder of their work time to other activities of Rare. Managing Director and Deputy Managing Director responsibilities will include, but are not limited to, overall strategic development and management, partnership management (including with Rare), management and coordination of LP relations, and oversight of investments and operations.
258. The Fund Manager will provide overall direction to the Fund, and will oversee country teams in Indonesia and the Philippines, including investment sourcing and investment management. Primary responsibilities of the Fund Manager responsibilities will include, but are not limited to, refining and executing the Fund's investment strategy, leading investment teams in Indonesia and the Philippines to identify, process, and supervise investment opportunities to optimize outcomes blending social, environmental and financial outcomes, and managing a portfolio impact valuation and reporting process to investors.

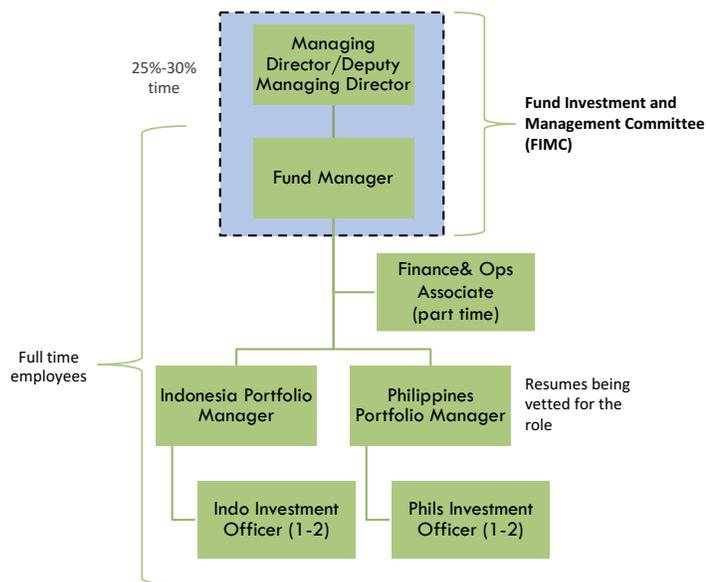
259. The GP will work with Fish Forever staff or hire short-term consultants for additional expertise related to monitoring and evaluation, biological and economic modeling, community engagement, and other activities as needed. Third-party consultant expenses will be paid for by portfolio companies, through a services agreement with Rare, or through grants received through the GP.

**B. Project Execution Organizational Chart**

**Figure 6: GEF Project Team**

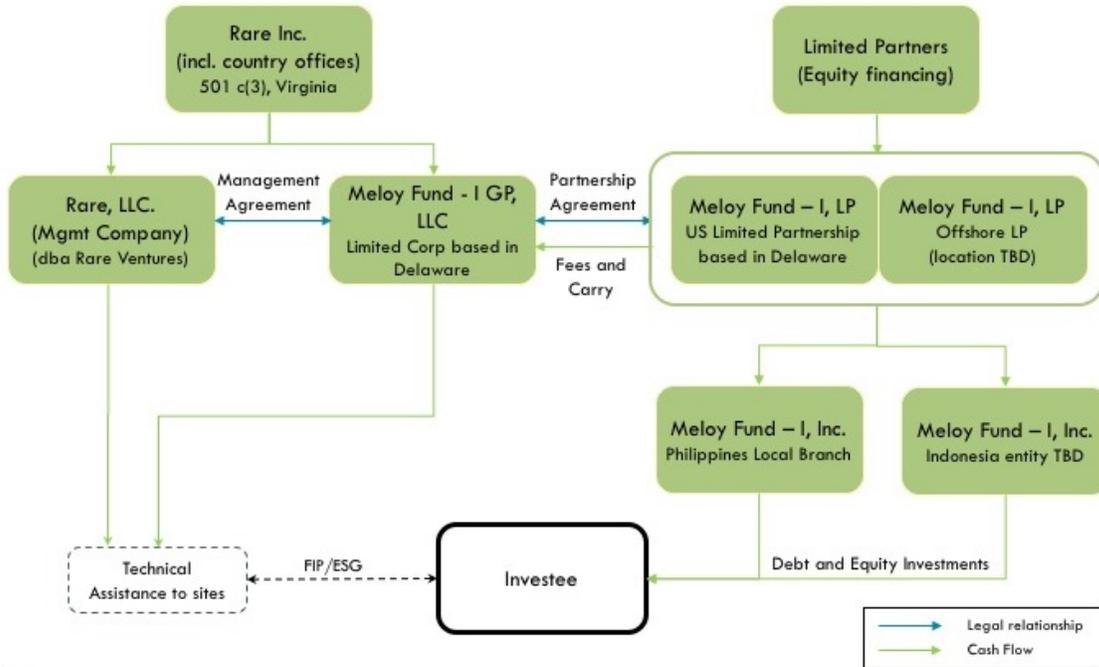


**Figure 7: Meloy Fund Management Organizational Chart**



**Figure 8: Fund Corporate Structure**

260. This chart describes the relationship, which may be changed in Rare, as the sole member of the GP, and the GP's discretion, between the various legal entities which the GP anticipates will collaborate to pursue outcomes and returns that integrate social, environmental, and financial considerations.



## SECTION 6: MONITORING AND EVALUATION PLAN

261. Project monitoring and evaluation will be conducted in accordance with established CI and GEF procedures by the “GEF Project Team”, which will include Rare grants management and Fish Forever program personnel, the FIMC and the CI-GEF Project Agency (please see Figure 6 above). Each of the parties’ roles and responsibilities for the implementation and management of the GEF Project are as follows:

- Rare (Grants Management Personnel and Global & In-country Fish Forever Program Personnel):
  - Oversight and management of all project related reporting to the GEF-CI Project Agency
  - Fisheries Technical Assistance to the Fund, including pre-investment due diligence, post-investment E&S supervision, FIP development and implementation, and targeted monitoring and evaluation support at sites of overlap between the Fund and Fish Forever.
- Meloy Fund (FIMC)
  - Executive management of the Fund
  - Management of Fund’s investment strategy, selection and oversight of portfolio investments, terms and conditions of portfolio investments, and timing of and terms of sale of or realization of gains or losses
  - Oversight of portfolio company reporting and adherence to E&S minimum standards
- Conservation International Project Agency Team (CI-GEF PA):
  - Overall project oversight and engagement with GEF Secretariat
  - Overall assurance, backstopping, and oversight of GEF project monitoring and evaluation activities
  - Field supervision missions
  - Development of Terms of Reference for independent midterm and terminal evaluations

262. The project's M&E plan will be presented and finalized at the project inception meeting, including a review of indicators, means of verification, and the full definition of project staff M&E responsibilities.

### A. Monitoring and Evaluation Roles and Responsibilities

263. Rare (including Fish Forever) and the FIMC will be responsible for initiating and organizing key GEF monitoring and evaluation tasks. This includes the project inception meeting and report, quarterly progress reporting, annual reporting, documentation of lessons learned, and support for and cooperation with independent external E&S audits to be conducted for every investee every 3 years (contingent on additional grant funding available).

264. Rare and the FIMC are responsible for ensuring the monitoring and evaluation activities are carried out in a timely and comprehensive manner, and for initiating key monitoring and evaluation activities, such as the independent E&S audits.

265. Key project executing partners, including portfolio companies and Rare’s Fish Forever program staff, are responsible for providing any and all required information and data necessary for timely and comprehensive project reporting, including results and financial data, as necessary and appropriate.

266. The LPAC plays a key oversight role for the project, with regular meetings to receive updates on project implementation progress. The LPAC also provides ad-hoc oversight and feedback on Fund investments, responding to inquiries or requests for approval from the FMIC.
267. The CI-GEF PA plays an overall assurance, backstopping, and oversight role with respect to monitoring and evaluation activities.

## **B. Monitoring and Evaluation Components and Activities**

268. The Project M&E Plan includes the following components:

### **a. Inception Meeting and Fund Launch**

A project inception meeting will be held within the first three months of project start with the Fund management team, Fish Forever and CI-GEF PA. The overarching objective of the inception workshop is to assist the project team in understanding and taking ownership of the project's objectives and outcomes. The inception meeting will be used to detail the roles, support services and complementary responsibilities of the CI-GEF PA, the Executing Agency, and the Fund (to be detailed in a side letter between the Fund and CI to the Fund's Limited Partnership Agreement - LPA<sup>95</sup>).

The formal signing of the LPA by CI, on behalf of the GEF, will mark the inception of the Project.

The Project Team also aims to announce the official launch of the Fund during the Our Ocean conference, which is scheduled to take place in Malta, October 5-6, 2017. This will be in follow up to the announcement made at the Our Ocean conference in 2016, where the development of the Meloy Fund was announced in collaboration with the GEF Secretariat, Rare and CI.

### **b. Inception Meeting Report**

The Executing Agency should produce an inception report documenting all changes and decisions made during the inception workshop to the project planned activities, results framework, and any other relevant aspects of the project. The inception report should be produced within one month of the inception meeting, as it will serve as a key input to the timely planning and execution of project start-up and activities.

### **c. Project Results Monitoring Plan (Objective, Outcomes, and Outputs)**

A Project Results Monitoring Plan will be developed by Rare (the Executing Agency), the FIMC and CI-GEF Project Agency, which will include objective, outcome and output indicators, metrics to be collected for each indicator, methodology for data collection and analysis, baseline information, location of data gathering, frequency of data collection, responsible parties, and indicative resources needed to complete the plan. Appendix II provides the Project Results Monitoring Plan table that will help complete this M&E component.

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<sup>95</sup> Investment funds, such as the Meloy Fund, are typically structured as limited partnerships that are governed by the terms of a Limited Partnership Agreement (LPA) between the Fund's General Partner and the Fund's Limited Partner(s). Individual Limited Partners and the General Partner of the fund may agree on a "side letter" that will include specific provisions applicable only to them, as opposed to being incorporated in the LPA which would apply to everyone under the limited partnership. These specific provisions typically address special arrangements with certain investors.

In addition to the objective, outcome, and output indicators, the Project Results Monitoring Plan table will also include all indicators identified in the Safeguard Plans prepared for the project, thus they will be consistently and timely monitored.

The monitoring of these indicators throughout the life of the project will be necessary to assess if the project has successfully achieved its expected results.

Baseline Establishment: Given that the pipeline of portfolio companies will continue to be developed throughout the Fund investment period (5 years), and as the overlap with Fish Forever sites is contingent on the companies' sourcing sites, the exact areas of investment impact remain unknown at this time. As such, baseline data will be collected and documented by the relevant project partners following the disbursement of financing to selected portfolio companies.

**d. GEF Focal Area Tracking Tools**

The relevant GEF Focal Area Tracking Tools will also be completed i) after the investments have been made, ii) the mid-point of project period (year 3), and iii) at the time of the project period (year 5).

**e. Annual Partner Meetings**

An annual meeting of the Fund's partners will be held during each calendar year of the partnership's term. The purpose of each such meeting will be to review and discuss the partnership's performance and investment strategy and will be purely informational in nature. Such meeting may be held by conference call, video conferencing or similar means of communication.

**f. CI-GEF Project Agency Field Supervision Missions**

The CI-GEF PA will conduct annual visits to the project country and potentially to project field sites based on the agreed schedule in the project's Inception Report/Annual Work Plan to assess first hand project progress. Other members of the GEF project team (as defined under paragraph 261) may also join field visits. A Field Visit Report will be prepared by the CI-GEF Project Agency staff participating in the oversight mission, and will be circulated to the project team and Project Management Unit members within one month of the visit.

**g. Quarterly Progress Reporting**

Commencing with the first full calendar quarter of the partnership's operations, the GP will provide the LPs with unaudited reports within sixty (60) days after the close of each of the first three (3) calendar quarters of each year. These reports will include information on portfolio company financial performance, a summary of acquisitions and dispositions of investments made by the partnership during that quarter and a list of investments then held (subject to reasonable delays in the event of the late receipt of any necessary information from a portfolio company), and an analysis of the environmental and social performance of the portfolio companies.

**h. Annual Project Implementation Report**

Commencing with the calendar year in which the partnership makes its initial portfolio company investment (but not later than the first full calendar year of partnership operations), the Fund will provide the LPs with a statement of changes in the partners' capital accounts (as adjusted

for unrealized gains and losses), and a list of investments then held (subject to reasonable delays in the event of the late receipt of any necessary information from a portfolio company). The Report will also include an analysis of the Fund's environmental and social impact. The reports will be made available within 120 days of the end of the fiscal year.

**i. Final Project Report**

The Executing Agency will draft a final report at the end of the project.

**j. Independent External Mid-term Review**

The project will undergo an independent Mid-term Review within 30 days of the mid-point of the grant term. The Mid-term Review will determine progress being made toward the achievement of outcomes and will identify course correction if needed. The Mid-term Review will highlight issues requiring decisions and actions, and will present initial lessons learned about project design, implementation and management. Findings and recommendations of the Mid-term Review will be incorporated to secure maximum project results and sustainability during the second half of project implementation.

**k. Independent Terminal Evaluation**

An independent Terminal Evaluation will take place within six months after project completion and will be undertaken in accordance with CI and GEF guidance. The terminal evaluation will focus on the delivery of the project's results as initially planned (and as corrected after the mid-term evaluation, if any such correction took place). The Executing Agency in collaboration with the FMIC will provide a formal management answer to the findings and recommendations of the terminal evaluation.

**l. Lessons Learned and Knowledge Generation**

Results from the project will be disseminated within and beyond the project intervention area through existing information sharing networks and forums. The project will identify and participate, as relevant and appropriate, in scientific, policy-based and/or any other networks, which may be of benefit to project implementation through lessons learned. The project will identify, analyze, and share lessons learned that might be beneficial in the design and implementation of similar future projects. There will be a two-way flow of information between this project and other projects of a similar focus.

**m. Financial Statements Audit**

Commencing with the first full calendar year of partnership operations, annual financial statements of the Partnership shall be reviewed by a reputable auditor. Such annual financial statements shall be accompanied by a report from the GP to the LPs, which will include a status report on investments then held, a summary of acquisitions and dispositions of investments made by the partnership during the preceding quarter and a valuation of each such investment. These reports will be made available within 120 days of the end of the fiscal year.

269. The Terms of References for the evaluations will be drafted by the CI-GEF PA in accordance with GEF requirements. The procurement and contracting for the independent evaluations will be handled by CI's General Counsel's Office. The funding for the evaluations will come from the USD 6 million in funding provided to the Fund through the GEF, as indicated at project approval.

**Table 11: M&E Plan Summary**

Type of M&E	Reporting Frequency	Responsible Parties	Indicative Budget from GEF (USD)	Indicative In-Kind Co-financing from Rare (USD)
<b><i>Inception Meeting and Fund Launch workshop and Report</i></b>	Within three months of CI signing the LPA on behalf of the GEF signing of CI Grant Agreement for GEF Projects	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> </ul>	N/A	USD 21,000
<b><i>Inception Meeting Workshop Report</i></b>	Within one month of inception meeting workshop	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> </ul>	N/A	USD 2,000
<b><i>Project Results Monitoring Plan (Objective, Outcomes and Outputs)</i></b>	Annually (data on indicators will be gathered according to monitoring plan schedule shown on Appendix IV)	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> <li>• Portfolio companies</li> </ul>	N/A	USD 1,790,000
<b><i>GEF Focal Area Tracking Tools</i></b>	i) After the investments have been made, ii) The mid-point of project period (year 3), and iii) At the time of the project period (year 5)	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> </ul>	N/A	N/A
<b><i>Annual Partner Meetings</i></b>	Annually	<ul style="list-style-type: none"> <li>• Fund General Partner (GP)</li> <li>• Fund Limited Partners (LPs)</li> </ul>	N/A	N/A
<b><i>CI-GEF Project Agency Field Supervision Missions</i></b>	Approximately annual visits	<ul style="list-style-type: none"> <li>• CI-GEF PA</li> </ul>	N/A	N/A
<b><i>Quarterly Progress Reporting</i></b>	Within sixty (60) days after the close of each of the first three (3) calendar quarters of each year	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> <li>• Portfolio companies</li> </ul>	N/A	USD 75,000

<b><i>Annual Project Implementation Report (PIR)</i></b>	Annually - within 120 days of the end of the fiscal year	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> <li>• Portfolio companies</li> </ul>	N/A	USD 95,000
<b><i>Project Completion Report</i></b>	Upon the project's operational closure	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> </ul>	N/A	USD 40,000
<b><i>Independent External Mid-term Review</i></b>	Approximate mid-point of project implementation period	<ul style="list-style-type: none"> <li>• CI Evaluation Office</li> <li>• GEF Project Team</li> <li>• CI-GEF PA</li> </ul>	USD 30,000	N/A
<b><i>Independent Terminal Evaluation</i></b>	Evaluation field mission within three months prior to project completion.	<ul style="list-style-type: none"> <li>• CI Evaluation Office</li> <li>• GEF Project Team</li> <li>• CI-GEF PA</li> </ul>	USD 30,000	N/A
<b><i>Lessons Learned and Knowledge Generation</i></b>	Ongoing	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> <li>• Portfolio companies</li> </ul>	N/A	USD 1,033,000
<b><i>Financial Statements Audit</i></b>	Annually - within 120 days of the end of the fiscal year	<ul style="list-style-type: none"> <li>• GEF Project Team</li> <li>- (Rare) Executing Agency</li> <li>- FIMC</li> <li>• Portfolio companies</li> </ul>	N/A	N/A

## SECTION 7: FUND PROJECTIONS AND FINANCING

### A. Overall Fund Projections and Financing

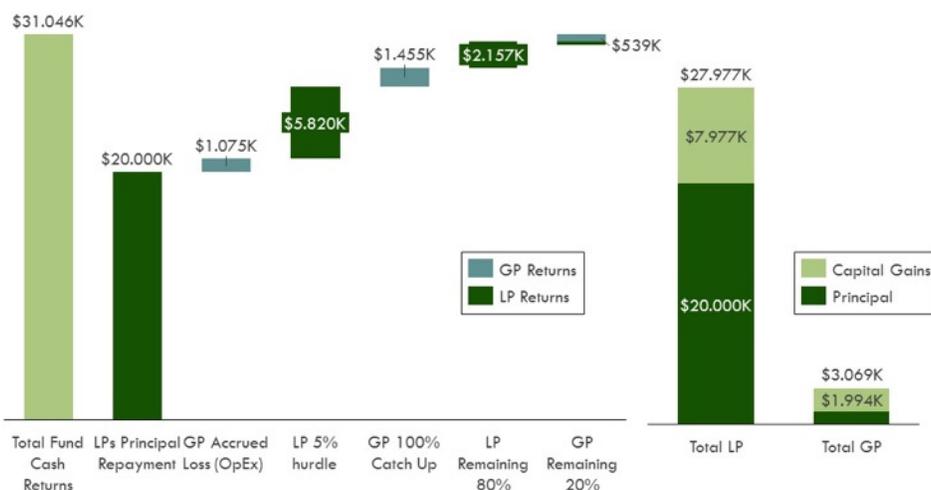
270. The project will be financed through a USD 6 million equity investment by the GEF (under the GEF-6 Non-Grant Instrument Pilot) with USD 12 million in equity co-financing provided through Rare. The GEF USD 6 million investment will be made in one tranche during the second close of the Fund (as outlined in paragraph 280 below).
271. Projected Fund performance will be based on aggregate performance of portfolio investments. Portfolio company projected operating results will be based primarily on financial projections prepared by each company's management, with adjustments to such projections made by the GP in its discretion. In all cases, projections are only estimates of future results, based upon information received from portfolio companies and third parties and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. General economic factors, which are not predictable, can have a material effect on the reliability of projections. In addition, it is the GP's intent to support portfolio companies intentionally pursuing triple bottom line strategies. While it is the GP's belief that these strategies will create long-term financial benefits, it is possible that supporting environmental and social impacts may result in lower-than-anticipated financial returns. Table 12, below, contains preliminary projections, based solely on currently available data as interpreted by the GP. The GP makes no assurance of the projections contained in Table 12. This information should not be construed as a benchmark, guidance, or point of comparison with eventual Fund performance in any manner.

**Table 12: Fund Projections - High Level Overview**

Meloy Fund Projections High Level Overview										
(USD '000)	2017 Year 1	2018 Year 2	2019 Year 3	2020 Year 4	2021 Year 5	2022 Year 6	2023 Year 7	2024 Year 8	2025 Year 9	2026 Year 10
# of Investments Outstanding	3	8	13	18	20	18	13	8	3	0
Total Disbursed	USD 3,750	USD 5,750	USD 5,750	USD 5,750	USD 2,000	USD 0				
Amount Outstanding	USD 3,750	USD 9,500	USD 15,250	USD 20,500	USD 21,000	USD 18,500	USD 13,250	USD 7,833	USD 3,417	USD 0
Principal Repayments	USD 0	USD 0	USD 0	USD 469	USD 1,406	USD 2,344	USD 4,856	USD 5,013	USD 4,075	USD 3,138
Total Write-Offs	USD 0	USD 0	USD 0	USD 31	USD 94	USD 156	USD 394	USD 404	USD 342	USD 279
Interest and Capital Gains	USD 105	USD 421	USD 842	USD 1,236	USD 1,446	USD 1,341	USD 3,858	USD 3,481	USD 3,148	USD 2,920
Guarantee Fees and Others	USD 438	USD 98	USD 156	USD 152	USD 196	USD 159	USD 138	USD 113	USD 91	USD 126
GP Management Fees	USD 228	USD 299	USD 386	USD 472	USD 500					
<b>Net Fund Cash Returns</b>	(USD 4,311)	(USD 5,727)	(USD 5,450)	(USD 4,669)	USD 156	USD 3,026	USD 8,076	USD 7,881	USD 6,632	USD 5,432

272. A summary of the projected Fund payout and the co-financing contributions are outlined in Figure 9 and Table 13 below. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections.

**Figure 9: Projected Meloy Fund Waterfall**



## B. Indicative Re-Flow Schedule

273. As outlined in paragraph 86, the Fund is expected to generate a net IRR of 6.4 percent. This net IRR includes a) management fees; b) fund start-up fees (USD 250K) start-up and fund liquidation fees (USD 50K) – both of which are common maximum amounts; c) Fund taxes as part of fund operations in Indonesia, the Philippines, and the US. It does not include taxes that need to be paid individually by each fund investor. The IRR also includes fund reinvestments using proceeds from a prior investment.

274. As a result of its investment in the Fund, the GEF's net IRR is projected to be approximately 5.1 percent. The comparatively lower GEF IRR is due to:

- Fees to cover costs of a partial guarantee to help catalyze Fund investors: The partial guarantee will cover 50 percent of debt investment losses of the Fund's LPs, excluding debt investment losses realized by the GEF. The terms of the guarantee are in the final stages of negotiation and fees associated with the guarantee are estimated to involve a 1 percent origination fee and a 1 percent utilization fee. Given projected debt financing, total fees are currently estimated to be USD 718K throughout the life of the Fund.
- Additional costs for GEF independent mid-term and terminal evaluations – to be conducted in Years 3 and 5 of the Fund: estimated to be USD 60K in total.

275. The first Fund closing is projected to be on August 1, 2017, so the Fund is expected to wind down 10 years later, on August 1, 2027. Within 90 days following the expiration of the Meloy Fund, on November 1, 2027, the GP will distribute all fund proceeds to the Fund's LPs. At that point, it is projected that the GEF will see a USD 2M return on its investment for a total of USD 8M in reflows. Projected reflows to GEF are shown in the table below. At the GP's discretion, the GP may provide early distributions to LPs in advance of the expiration of the Meloy Fund.

276. In order to fulfill any obligation or liability of the Fund, the General Partner may recall distributions made to its LPs up to the third anniversary of the termination of the fund (until October 2030). The GP may recall the lesser of 25 percent of LP commitments, and 75 percent of any distributions of the GEF Investment. This amount equals approximately USD 1.5M. In the event that the GP may request or recall funding to satisfy any outstanding liability, CI will reflow USD 6.5M on to the GEF Trustee in November of 2027, and hold USD 1.5M for three more years in a separate, interest-bearing account until the funds plus any interest earned can be finally passed on to the GEF Trustee in November of 2030.
277. Any reflows from CI to the GEF Trustee would be net of any taxes CI may be obligated to pay.

**Table 13: Indicative Re-flow Schedule**

	2017-18 Year 1	2018-19 Year 2	2019-20 Year 3	2020-21 Year 4	2021-22 Year 5	2022-23 Year 6	2023-24 Year 7	2024-25 Year 8	2025-26 Year 9	2026-27 Y10	November 2030
Projected LP Fund drawdown	USD 4.3M	USD 5.7M	USD 5.4M	USD 4.7M	USD 0M						
Cum. cash for LP/GP distribution						USD 3.0M	USD 11.1M	USD 18.9M	USD 25.6M	USD 31M	
Projected GEF cash flows	USD 1.3M	USD 1.7M	USD 1.6M	USD 1.4M	USD 0	USD 6.5M <sup>96</sup>	USD 1.5M <sup>97</sup>				

### C. Overall Project Co-financing

278. USD 12 million in contingent equity will be provided as co-financing through other impact investors. Furthermore, all Fish Forever related activities as outlined under Component 2 of the project are fully co-financed (in-kind) by Rare.
279. Rare's co-financing commitment letter is attached in Appendix XI. Due to requests for confidentiality from the Fund's prospective LP private investors, conditional letters of commitment (totaling USD 10.5 million) have already been shared directly with the GEF Sec. These private investor commitments are contingent upon final legal review of investment documentation, and ongoing due diligence as applicable. Their expectation is to finish all applicable reviews in anticipation of a first Fund close August 1, 2017. The project development team is in process of closing additional Fund commitments investment deals for at least USD 1.5 million. Rare commits to covering any potential investment shortfalls such that the Meloy Fund total capitalization is at least USD 18 million.
280. Given the length of time required for the due diligence and approval process for the GEF investment, the Fund plans to have a first close in August 2017 with its private investors, and a second and final close within 6-12 months of the first close.

<sup>96</sup> Repayment to take place by October 31, 2027 at the latest

<sup>97</sup> Repayment to take place by October 31, 2030

**Table 14: Committed Cash and In-Kind Co-financing (USD)**

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Amount (USD)
NGO	Rare	Equity	12,000,000
NGO	Rare	In-kind	22,899,864
GEF Agency	Conservation International (CI)	In-kind	300,000
<b>TOTAL CO-FINANCING</b>			<b>35,199,864</b>

281. USAID's Credit Review Board has approved the term of a guarantee through the Development Credit Authority (DCA), that would cover 50 percent of debt investment losses of the Fund's LPs, excluding debt investment losses realized by the GEF. The legal guarantee agreement is currently being negotiated.

## APPEPENDIX I: Project Results Framework

<b>Objective:</b>	To improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes through capital investments in commercially viable enterprises.		
<b>Indicator(s):</b>	<ul style="list-style-type: none"> <li>a) Number of investments made in scalable ventures in Indonesia and the Philippines</li> <li>b) Percentage of fishers and fish workers with increased earnings through project investments as a measure of improved status of livelihoods</li> <li>c) Percentage increment in profit per unit effort (PPUE) at sites of investment that overlap with Fish Forever sites</li> <li>d) Number of hectares with improved management of coral reef ecosystems</li> </ul>		
<b>Expected Outcomes and Indicators</b>	<b>Project Baseline</b>	<b>End of Project Target</b>	<b>Expected Outputs and Indicators</b>
<b>Component 1: The Meloy Fund for Sustainable Small-Scale Fisheries</b>			
<p><b>Outcome 1.1:</b> Area of coral reef ecosystems in Indonesia and the Philippines under improved sustainable management increased through financial investments that incentivize adoption of sustainable rights-based fisheries management practices that include protection for critical habitats.</p> <p><i>Indicator 1.1a:</i> Number of hectares of coral reef ecosystems under sustainable management through financial incentives offered through Meloy Fund investments</p> <p><i>Indicator 1.1b:</i> Number of investments made through the Meloy Fund</p> <p><i>Indicator 1.1c:</i> Average percent increment in profit per unit effort (PPUE) at sites of investment that overlap with Fish Forever sites.</p>	<p>0 hectares of coral reef ecosystems with improved sustainable management due to financial investments</p>	<p><b>Target 1.1:</b> 1.2 million ha of coral reef ecosystems included or targeted for inclusion under community-level rights-based management within 10 years</p>	<p><b>Output 1.1.1:</b> Investments in 12-18 ventures in Indonesia and the Philippines that increase the potential earnings of small-scale fishing communities, thereby incentivizing their transition to and continued practice of sustainable fisheries management in targeted coral reef ecosystems successfully executed.</p> <p><i>Indicator 1.1.1.a:</i> Number of investments in Indonesia and the Philippines made through the Meloy Fund</p> <p><i>Indicator 1.1.1.b:</i> Number of fishers and fish workers with increased earnings through investments disaggregated by gender of beneficiaries where investments overlap with Fish Forever sites</p> <p><i>Indicator 1.1.1.c:</i> Average percent increment in profit per unit effort (PPUE) at sites of investment that overlap with Fish Forever sites</p>

			<p><b>Output 1.1.2:</b> At least USD 5 million in financing to acquire or upgrade equipment and/or other assets that preserve or add value to fish and fish products along the supply chain (e.g. ice plants, cold storage trucks) invested in ventures that source from sustainably managed small-scale fisheries in targeted coral reef ecosystems</p> <p><i>Indicator 1.1.2:</i> Amount of USD invested for ventures that source from sustainably managed SSFs to acquire or upgrade equipment and/or other assets that preserve or add value to fish and fish products along the supply chain</p> <p><b>Output 1.1.3:</b> 50,000 hours of mentoring and business development support to portfolio companies' senior managers in financial and operational management provided to build capacity to scale competitive businesses that source from sustainably managed SSFs.</p> <p><i>Indicator 1.1.3:</i> Number of hours of mentoring and business development support provided to pipeline and portfolio companies</p>
<b>Component 2: Fisheries technical assistance (TA) through Fish Forever</b>			
<p><b>Outcome 2.1:</b> Capacity of portfolio companies to deliver on the Fund's environmental and social impact targets improved through fisheries TA provided by Fish Forever</p> <p><i>Indicator 2.1:</i> Percentage of projected E&amp;S impact targets achieved.</p>	0 portfolio companies	<p><b>Target 2.1:</b> 100 percent of portfolio companies' capacity improved to enable them to achieve the Environmental and Social targets of the Fund</p> <p><u>Environmental target</u></p> <p>a: 1.2 million hectares of coral reef ecosystems under improved management (target 1.1 above)</p>	<p><b>Output 2.1.1:</b> Pre-investment due diligence conducted to assess the Environmental and Social (E&amp;S) impact on small-scale fisheries of potential portfolio companies and their ability meet the minimum E&amp;S standards of the Fund in 100 percent of potential investments</p>

		<p><u>Social targets</u></p> <p>b: 100,000 fisher household members reached</p> <p>c: USD 20 million aggregate annual purchases from fishers</p>	<p><i>Indicator 2.1.1:</i> Percentage of portfolio companies that have undergone due diligence with technical input from the Fish Forever team</p> <p><b>Output 2.1.2:</b> Post-investment supervision provided to 100 percent of portfolio companies to ensure adherence to the Fund’s E&amp;S Guidelines</p> <p><i>Indicator 2.1.2:</i> Percentage of portfolio companies in adherence with the E&amp;S minimum standards</p> <p><b>Output 2.1.3:</b> Fishery Improvement Project (FIP) roadmaps jointly developed by portfolio companies, the Fund and Fish Forever for relevant investments</p> <p><i>Indicator 2.1.3.a:</i> Number FIP roadmaps jointly developed.</p> <p><i>Indicator 2.1.3.b:</i> Number and percentage of portfolio investments sourcing seafood from at least one Fishery Improvement Project (FIP)</p>
<p><b>Outcome 2.2:</b> Integrity and functioning of targeted coral reef ecosystems maintained through the implementation of community rights-based management at Fish Forever sites, as incentivized through Meloy Fund investments</p> <p><i>Indicator 2.2.a:</i> Percentage of live coral cover within targeted TURF + reserves</p> <p><i>Indicator 2.2.b:</i> Total fish biomass within targeted TURF + reserves</p>	<p>To be determined during the implementation phase as the exact areas of investment impact and their overlap with Fish Forever sites remains unknown at this time.</p>	<p><b>Target 2.2:</b> Baseline measures maintained and/or improved</p>	<p><b>Output 2.2.1:</b> At least 36,000 constituents in coastal communities impacting high-priority marine ecosystems reached by Pride (behavior change) campaigns, which build constituencies for sustainable community rights-based fisheries management.</p> <p><i>Indicator 2.2.1:</i> Number of constituents, disaggregated by gender, in coastal communities reached through Pride campaigns over the course of the project at Fish Forever sites</p>

<p><i>Indicator 2.2.c: Average length of target species under TURF + reserve management</i></p>			<p><b>Output 2.2.2:</b> Capacity and constituency amongst fishers and communities to support sustainable fishing practices within targeted coral reef ecosystems (including marine habitats of coral reef, seagrass, mangroves and oceanic) strengthened.</p> <p><i>Indicator 2.2.2:</i> Percentage change in knowledge, attitudes, practices towards responsible fishing at targeted Fish Forever sites</p> <p><b>Output 2.2.3:</b> Regulation violations in TURF and no-take zone stabilized or decreased in priority marine ecosystems within 3 years of Fish Forever implementation.</p> <p><i>Indicator 2.1.2:</i> Number of TURF and no-take zone regulation violations recorded within 3 years of Fish Forever implementation</p>
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**APPENDIX II: Project Timeline**

MELOY FUND TIMELINE	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Outcome 1.1:</b>						120,000	420,000	720,000	1,020,000	1,200,000
Output 1.1.1:	3	8	13	18	20	20	20	20	20	20
Output 1.1.2:	USD 1,875,000	USD 4,750,000	USD 7,625,000	USD 10,500,000	USD 11,500,000	USD 11,500,000	USD 11,500,000	USD 11,500,000	USD 11,500,000	USD 11,500,000
Output 1.1.3:										
<b>Outcome 2.1:</b>										
Output 2.1.1:										
Output 2.1.2:										
Output 2.1.3:										
<b>Outcome 2.2:</b>										
Output 2.2.1:										
Output 2.2.2:										
Output 2.2.3:										

Assumptions (from the Fund's Financial Model)	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Total investments done (#, new investments)	3	5	5	5	2	0	0	0	0	0
Total investments done (#, cum investments)	3	8	13	18	20	20	20	20	20	20
Total disbursements (USD)	USD 3,750,000	USD 5,750,000	USD 5,750,000	USD 5,750,000	USD 2,000,000	0	0	0	0	0
Percent financing to acquire equipment for fisher value addition along supply chain	25 percent	25 percent	25 percent	25 percent	25 percent	25 percent				
Total financing to acquire equipment for fisher value addition along supply chain (annual)	USD 937,500	USD 1,473,500	USD 1,473,500	USD 1,473,500	USD 500,000	0	0	0	0	0
Total investments outstanding (#)	3	8	13	18	20	18	13	8	3	0
Mentoring hours per investment per year	500	500	500	500	500	500	500	500	500	500
Total hours mentored (annual)	1,500	4,000	6,500	9,000	10,000	9,000	6,500	4,000	1,500	0
Coral reef ecosystem coverage per investment by investment exit (ha/#)	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Exited investments (#)	0	0	0	0	0	2	5	5	5	3
Total coral reef ecosystem coverage (annual)	N/A	N/A	N/A	N/A	N/A	120,000	300,000	300,000	300,000	180,000

### APPENDIX III: Project Results Monitoring Plan

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
<b>Objective:</b> To improve the conservation of targeted coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes through capital investments in commercially viable enterprises.								
<u>Indicator a:</u> Number of investments made in scalable ventures in Indonesia and the Philippines	Number of investments made	Investment portfolio	0	12-18	Philippines and Indonesia	Annually	Fund Investment Management Committee (FIMC)	Fund Management Fee
<u>Indicator b:</u> Percentage of fishers and fish workers with increased earnings through project investments as a measure of improved status of livelihoods	Percentage of fishers and fish workers with increased earnings through investments	Fish Forever Monitoring, Evaluation and Learning reports  Participatory Coastal Resource Assessment (PCRA) – at Fish Forever sites of overlap  “Our Fish” App <sup>98</sup> or alternative digital technology at sites where feasible	0	>0	At sites of investment that overlap with Fish Forever sites	Annually	Fish Forever country teams (Indonesia and Philippines) and global team	Co-financing through Fish Forever and portfolio companies
<u>Indicator c:</u>	Percent increment in profit per unit effort (PPUE) at sites of investment that	Participatory Coastal Resource Assessment (PCRA) – at targeted Fish Forever sites	0	>0	At sites of investment that overlap with Fish Forever sites	PCRA – every 3 years  “Our Fish” App – continuous data collection	Fish Forever country teams (Indonesia and Philippines) and global team	Co-financing through Fish Forever

<sup>98</sup> An android application designed as a business management tool to record transactions between fishers and fish buyers, providing real time landing data in coastal communities.

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
	overlap with Fish Forever sites.	“Our Fish” App or alternative digital technology at sites where feasible						
<u>Indicator d:</u> Number of hectares with improved management of coral reef ecosystems	Number of hectares of coral reef ecosystems under improved management	Self-reporting by portfolio companies  Remote sensing habitat maps at sites of overlap with Fish Forever	0 hectares	1.2 million hectares	At all investment sites	Annually	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines) and global team	Fund Management Fee, and co-financing through Fish Forever and portfolio companies
<b>Component 1: The Meloy Fund for Sustainable Fisheries</b>								
Outcome 1.1: Area of coral reef ecosystems in Indonesia and the Philippines under improved sustainable management increased through financial investments that incentivize adoption of sustainable rights-based fisheries management practices that include protection for critical habitats.								
Outcome Indicator 1.1a:	Number of hectares of coral reef ecosystems under improved sustainable management through financial incentives offered through Meloy Fund investments	a: Self-reporting by portfolio companies  b: Remote sensing habitat maps at sites of overlap with Fish Forever sites	0 hectares	1.2 million hectares	At all investment sites	a: Annually  b: When newly designated TURFs and/or reserves are created or changes are made	Fund Investment and Management Committee (FIMC) and Fish Forever global team	Fund Management Fee, and co-financing through Fish Forever and portfolio companies
Outcome indicator 1.1b:	Number of investments made through the Meloy Fund.	Review of investment portfolio	0 investments	To be determined as the investment pipeline is rolled out	All investments  b: At sites of investment that overlap with Fish Forever sites	Annually	Fund Investment and Management Committee (FIMC)	Fund Management Fee
Outcome indicator 1.1c:	Average percent increment in profit per unit	Participatory Coastal Resource Assessment	0 fishers and fish workers	>0	At sites of investment that overlap with	PCRA – every 3 years	Fish Forever country teams (Indonesia and	Co-financing through Fish Forever

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
	effort (PPUE) at sites of investment that overlap with Fish Forever sites	(PCRA) – at targeted Fish Forever sites  “Our Fish” App or alternative digital technology at sites where feasible			Fish Forever sites	“Our Fish” App – continuous data collection	Philippines) and global team	
Output Indicator 1.1.1:	a: Number of investments in Indonesia and the Philippines made through the Meloy Fund  b: Number fishers and fish workers with increased earnings through investments disaggregated by gender of beneficiaries where investments overlap with Fish Forever sites  c: Average percent increment in profit per unit effort (PPUE) at sites of investment that overlap	a: Review of investment portfolio  b: Self-reporting by Portfolio Companies  Fish Forever Monitoring, Evaluation and Learning reports  c: Participatory Coastal Resource Assessment (PCRA) – at targeted Fish Forever sites  “Our Fish” App or alternative digital technology at sites where feasible	a: 0 investments  b and c: 0 fishers and fish workers	a: The exact # of investments will be determined once the Fund rolls out its investment pipeline. The Fund may make multiple investment into one company.  b: >0  c: >0	a: All investments  b: At all sites of investment  c: At sites of investment that overlap with Fish Forever sites	a: Annually  b: Annually  c: PCRA – every 3 years  “Our Fish” App – continuous data collection	a: Fund Investment and Management Committee (FIMC)  b: Fund Investment and Management Committee (FIMC) (in case of self-reporting by Portfolio Companies) and Fish Forever country teams (Indonesia and Philippines) and global team	a: Fund Management Fee  b: Fund Management Fee (in case of self-reporting by Portfolio Companies), and co-financing through Fish Forever and portfolio companies

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
	with Fish Forever sites							
Output Indicator 1.1.2:	Amount of USD invested for ventures that source from sustainably managed SSFs to acquire or upgrade equipment and/or other assets that preserve or add value to fish and fish products along the supply chain	Review of investment portfolio	0 USD	USD 5 million	Meloy Fund Investment Portfolio	Annually	Fund Investment and Management Committee (FIMC)	Fund Management Fee
Output Indicator 1.1.3:	Number of hours of mentoring and business development support provided to pipeline and portfolio companies	Record of mentoring and business development support provided to pipeline and portfolio companies	0 hours	50,000 hours	At company offices (remote or in person)	Annually	Fund Investment and Management Committee (FIMC)	Fund Management Fee
<b>Component 2: Fisheries Technical Assistance (TA) through Fish Forever</b>								
Outcome 2.1: Capacity of portfolio companies to deliver on the Fund's environmental and social impact targets improved through fisheries TA provided by Fish Forever								

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
Outcome Indicator 2.1:	Percentage of projected E&S impact targets achieved.	Portfolio company reports	0	<p>100 percent of portfolio companies' capacity improved to enable them to achieve the Environmental and Social targets of the Fund</p> <p><u>Environmental Target</u>  a: 1.2 million hectares of coral reef ecosystems) under improved management</p> <p><u>Social Targets</u>  b: 100,000 fisher household members positively impacted</p> <p>c: USD 20 million aggregate annual purchases from fishers</p>	Meloy Fund investment portfolio	Annually	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines) and global team	Fund Management Fee

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
Output Indicator 2.1.1:	Percentage of portfolio companies that have undergone due diligence with technical input from the Fish Forever team	Record of due diligence process	0	All portfolio companies – the exact # of portfolio companies will only be determined once the Fund rolls out its investment pipeline	Meloy Fund investment pipeline	Annually	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines) and global team	Fund Management Fee
Output Indicator 2.1.2:	Percentage of portfolio companies in adherence with the E&S minimum standards	Portfolio company reports	0	All portfolio companies – the exact # of portfolio companies can only be determined once the Fund rolls out its investment pipeline	Meloy Fund investment portfolio	Annually	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines) and global team	Fund Management Fee
Output Indicator 2.1.3:	a: Number FIP roadmaps jointly developed  b: Number and percentage of portfolio investments sourcing seafood from at least one Fishery Improvement Project (FIP)	Review of investment portfolio	0	All portfolio companies working within the seafood value-chain – the exact # of “relevant” portfolio companies can only be determined once the Fund rolls out its investment pipeline	Meloy Fund investment portfolio	Annually	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines) and global team	External grant funding
Outcome 2.2: Integrity and functioning of targeted coral reef ecosystems maintained through the implementation of community rights-based management at Fish Forever sites, as incentivized through Meloy Fund investments								

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
Outcome Indicator 2.2:	<p>a: Percentage of live coral cover targeted TURF + reserves</p> <p>b: Total fish biomass within targeted TURF + reserves</p> <p>c: Average length of target species under TURF + reserve management</p>	<p>a: Underwater visual survey/satellite image, and/or aerial photography + GIS</p> <p>b: Underwater visual survey and/or biomass estimation surveys</p> <p>c: Landing site/boat intercept surveys</p>	a-c: TBD - we need to know where investments will be targeted to get the baseline measures	>0	At sites of investment that overlap with Fish Forever sites	<p>a-b: Baseline 3 years 6 years 9 years</p> <p>c: Baseline Annual summaries (data collected monthly) for years 1-3 6 years 9 years</p>	Fish Forever country teams (Indonesia and Philippines) and global team	Co-financed through Fish Forever
Output Indicator 2.2.1:	Number of constituents, disaggregated by gender, in coastal communities reached through Pride campaigns over the course of the project at targeted Fish Forever sites	Campaign learning reports	0 constituents	36,000	At sites of investment that overlap with Fish Forever sites	Pre and Post Pride Campaign implementation	Fish Forever country teams (Indonesia and Philippines)	Co-financed through Fish Forever
Output Indicator 2.2.2	Percentage change in knowledge, attitudes, practices towards responsible fishing at targeted Fish Forever sites	Monitoring, Evaluation and Learning Fish Forever	<p><u>Philippines:</u></p> <p>1. Fisher registration = 33.89 percent;</p> <p>2. Boat registration = 35.33 percent;</p>	<p>15-20 percent point change:</p> <p><u>Philippines:</u></p> <p>1. Fisher registration = or &gt; 48.89 percent;</p> <p>2. Boat registration =</p>	At sites of investment that overlap with Fish Forever sites	Annually and/or ongoing (in the case of catch reporting)	Fish Forever country teams (Indonesia and Philippines)	Co-financed through Fish Forever

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
			<p>3. Fish catch reporting = 6.7 percent.  <i>* these sites may/may not be sites of Meloy Fund investment and therefore are only a representative of the baseline at this time. Site-specific baselines will be determined once exact sites are known.</i></p> <p><u>Indonesia:</u>  1. Fisher registration = 0 percent;  2. Boat registration = 0 percent;  3. Fish catch reporting = 0 percent.</p> <p><i>*We will begin standardizing the monitoring of the 3 behaviors outlined at all sites. Indonesia had not previously tracked this at Fish Forever sites</i></p>	<p>or &gt; 50.33 percent;  3. Fish catch reporting = or &gt; 21.7 percent.</p> <p><u>Indonesia:</u>  1. Fisher registration = 15-20 percent;  2. Boat registration = 15-20 percent;  3. Fish catch reporting = 15-20 percent.</p> <p><i>* Site-specific targets will be determined once the baselines for each site of investment are known.</i></p>				
Output Indicator 2.2.3:	Number of TURF and no-take zone regulation violations recorded within 3 years of Fish	Enforcement logbooks	<p><u>Philippines:</u>  3.6 violations (on average) across 5 sites  <i>* these sites may/may not be sites of Meloy Fund investment and</i></p>	< the baseline Baselines figures for each site will need to be determined once the new Fish Forever	At sites of investment that overlap with Fish Forever sites	Baseline Annual summaries (data collected monthly) for years 1, 2 & 3,	Fish Forever country teams (Indonesia and Philippines)	Co-financed through Fish Forever

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
	Forever implementation		<p><i>therefore are only a representative of the baseline at this time</i></p> <p><i>Indonesia:</i> 0 violations <i>*the MCS system is still under development for our sites in Indonesia, therefore no representative baseline can be provided at this time.</i></p>	sites are selected and once it is known where there is overlap with Meloy Fund investments.		then years 6 & 9		
<b>Safeguards</b>								
Restricted Access Indicator 1:	Percentage of sites where a formalized decision-making process regarding natural resource use and access was facilitated by Rare/Fish Forever	Record of engagement process	0 percent	100 percent	At sites of investment that overlap with Fish Forever sites	Every time a TURF and/or reserve is to be designated	Fish Forever country teams (Indonesia and Philippines)	Co-financed through Fish Forever
Restricted Access Indicator 2:	Percentage of sites where a decision regarding natural resource use and access rights was achieved	Record of engagement process	0 percent	100 percent	At sites of investment that overlap with Fish Forever sites	Every time a TURF and/or reserve is to be designated	Fish Forever country teams (Indonesia and Philippines)	Co-financed through Fish Forever
Restricted Access Indicator 3:	Percentage of sites that have a high level of satisfaction with the decision achieved	Record of engagement process	0 percent	100 percent	At sites of investment that overlap with Fish Forever sites	Every time a TURF and/or reserve is to be designated	Fish Forever country teams (Indonesia and Philippines)	Co-financed through Fish Forever

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
Indigenous Peoples Indicator 1:	Percentage of indigenous/local communities where FPIC have been followed and documented	Record of engagement	0 percent	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development
Indigenous Peoples Indicator 2:	Percentage of communities where project benefit sharing has been agreed upon through the appropriate community governance mechanisms and documented	Record of engagement	0 percent	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development
Gender Indicator 1:	Number of men and women that participated in project activities (e.g. meetings, workshops, consultations)	Record of participation	0	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development
Gender Indicator 2:	Number of men and women that received benefits (e.g. employment, income generating activities, training, access to natural	Record of participation	0	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
	resources, land tenure or resource rights, equipment, leadership roles) from the project							
Gender Indicator 3:	Number of strategies, plans (e.g. management plans and land use plans) and policies derived from the project that include gender considerations	FIP plan review	0	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development
Stakeholder Engagement Indicator 1:	Number of government agencies, civil society organizations, private sector, indigenous peoples and other stakeholder groups that have been involved in the project	Record of participation	0	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development
Stakeholder Engagement Indicator 2:	Number persons (sex disaggregated) that have been involved in project implementation phase (on an annual basis)	Record of participation	0	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development

Indicators	Metrics	Methodology	Baseline	Target	Location	Frequency	Responsible Parties	Indicative Resources
Stakeholder Engagement Indicator 3:	Number of engagement (e.g. meeting, workshops, consultations) with stakeholders during the project	Record of engagements	0	N/A	At sites where FIPs are developed	Aligned to each FIP work plan	Fund Investment and Management Committee (FIMC) and Fish Forever country teams (Indonesia and Philippines)	Grant resources to be raised in support of FIP development
Accountability and Grievance Mechanism Indicator 1:	Number of conflict and complaint cases reported to the project's Accountability and Grievance Mechanism	Record of complaints	0	N/A	Meloy Fund	Annually	Fund Investment and Management Committee (FIMC)	Fund Management Fee
Accountability and Grievance Mechanism Indicator 2:	Percentage of conflict and complaint cases reported to the project's Accountability and Grievance Mechanism that have been addressed	Record of complaints	0 percent	N/A	Meloy Fund	Annually	Fund Investment and Management Committee (FIMC)	Fund Management Fee

**APPENDIX IV: Safeguard Screening Form and Analysis**



**CI-GEF PROJECT AGENCY  
SCREENING RESULTS AND SAFEGUARD ANALYSIS**

(To be completed by CI-GEF Coordination Team)

**Date Prepared: July 13, 2016; Updated: January 11, 2017**

**I. BASIC INFORMATION**

<b>A. Basic Project Data</b>	
<b>Country:</b> Indonesia and The Philippines	<b>GEF Project ID:</b> 9370
<b>Project Title:</b> The Meloy Fund: A Fund for Sustainable Small-Scale Fisheries in SE Asia	
<b>Executing Entity:</b> RARE	
<b>GEF Focal Area:</b> Biodiversity	
<b>GEF Project Amount:</b> US\$6,000,000	
<b>Reviewer(s):</b> Ian Kissoon	
<b>Date of Review:</b> July 13, 2016; Revised January 11, 2017	
<p><b>Comments:</b> Analysis completed and approved. Kindly have the required safeguard plans completed and submitted to the CI-GEF Agency for approval before implementing. Note that the plans must be mainstreamed into the Project Document (ProDoc), and subsequently, the annual workplans and budget. Also adhere to the disclosure dates as indicated in Section V.</p> <p>Given the non-grant nature of this project, the analysis has been revised to allow the EA to prepare simplified safeguard plans (rather than full plans as was originally requested of the EA) for the overall project and extract from these plans, criteria/principles to be included in the Fund’s Environmental, Social and Governance (ESG) Guidelines for borrowers to comply with. Indicators for monitoring the safeguards have also been added to this revised analysis.</p>	

**B. Project Objective:**

To improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes through capital investments in commercially viable enterprises.

**C. Project Description:**

Indonesian and Philippine waters contain 77 percent of Southeast Asia’s coral reefs and nearly 80 percent of threatened reefs within the Coral Triangle. Overfishing has been recognized as the most important local threat to these reefs, a rampant practice due to largely unregulated, open-access fisheries. As a result, not only are average fish stocks currently far below healthy levels and trophic levels out of balance, but also significant deterioration of the critical coral habitats on which these fish depend. While rights-based management strategies offer a needed incentive to organize a reduction in fishing pressure, economic incentives must also be in place to ensure that transitioning to sustainable fisheries management is both feasible and enduring. The Meloy Fund is Rare’s solution to address this gap by creating market-based incentives to accelerate the behavior changes necessary to manage small scale fisheries sustainably.

## CI-GEF PROJECT AGENCY SCREENING RESULTS AND SAFEGUARD ANALYSIS

(To be completed by CI-GEF Coordination Team)

**Date Prepared: July 13, 2016; Updated: January 11, 2017**

### I. BASIC INFORMATION

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Executing Entity: RARE	
GEF Focal Area: Biodiversity	
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The project will be executed under the following components:

**Component 1: The Meloy Fund for Sustainable Small-Scale Fisheries**

Investments in 12-18 ventures in Indonesia and the Philippines that increase the potential earnings of small-scale fishing communities, thereby incentivizing their transition to and continued practice of sustainable fisheries management in coral reef ecosystems. By the end of the project, we expect that an estimated 1.2 million hectares of coral reef ecosystems will be included or targeted for inclusion under sustainable, community-level rights-based management. This target assumes that each fund investment will likely impact multiple sites. The target will be achieved through careful structuring of the fund, including its investment strategies and selection criteria.

**Component 2: Fisheries management and technical assistance through Fish Forever**

Through Fish Forever, Rare will scale up the solution of TURF + reserves in Indonesia and the Philippines. The TURF + reserve systems provide local fishers with exclusive access to their fishing grounds coupled with no-take reserves that they agree to protect. Fish Forever builds community capacity to set up and manage both the fishing areas and the reserves, so that fishers can take advantage of the “spillover” effect from the reserves into the surrounding area. In addition to the tenure and security that rights-based management provides, the spillover of more and larger fish into the TURF-managed fishing area provides another incentive for fishers to manage their resources sustainably. The Meloy Fund will add a much-needed set of economic incentives. The Meloy Fund will prioritize investments in which Fish Forever is present so that it can fully leverage the benefits of the technical assistance and management improvements produced by the program, and so that the fund’s investments directly benefit the fishers and communities complying with sustainable management of their fisheries.

**D. Project location and biophysical characteristics relevant to the safeguard analysis:**

Overfishing, destructive fishing, and changing environmental conditions are among the most pervasive threats to marine environments, affecting around 55 percent of coral reefs. As outlined in the Global Biodiversity Outlook 4 (GBO-4), “overfishing remains a major threat to marine ecosystems” (p.49). Based on FAO estimates, over 85 percent of the world’s fisheries are overexploited or fully exploited. In addition to threatening livelihoods, overfishing negatively impacts ecosystem health in a number of ways, including through a decline of species diversity and abundance and by reducing the number of grazers, which eat harmful algae growing on corals. In the decade leading up to 2007 – the latest period assessed – the percentage of coral reefs rated as threatened increased by nearly one third (30 percent). Local pressures are most severe in Southeast Asia, where nearly 95 percent of coral reefs are threatened.

At the same time, over 200 million people in developing countries depend on coral reef fisheries and aquaculture for their livelihoods. In the Philippines, 84 percent of the country’s 1.6 million people working in fisheries are in the municipal or small-scale sector, and in Indonesia, 60 percent of fishers work in the small-scale sector. In many cases, these fishers employ destructive and indiscriminate practices in an effort to extract as much as possible from declining resources, especially where unregulated open access conditions prevail. Common practices amongst coral reef fishers in Southeast Asia include utilizing explosives, which destroy habitats, and muroami practices – a technique of violently pounding coral to scare fish out into awaiting nets. These practices take a drastic and sometimes irreversible toll on critically endangered habitats.

Globally, half of all fish is caught by the world's poorest communities living in close proximity to the coastline. Overfishing and destructive fishing methods threaten both the viability of fish stocks and the habitats on which they survive. Compounded by increases in the frequency and severity of weather events, rising ocean temperatures and other changing environmental conditions, some of the world's most globally significant biodiversity – and the livelihoods which depend on it – are at risk. Without sufficient financial incentives to motivate fishing communities to protect and sustainably manage their natural resources, the tragedy of the commons will continue – even in places where regulations are in place.

Many fishers in both Indonesia and the Philippines lack the management tools, resources and capacity to manage their fisheries sustainably. Additionally, social and legal tolerance for overfishing and destructive fishing practices in and around marine protected areas (MPAs) prevails. Rapid population growth, poor coastal planning and weak governance have subjected Philippine ecosystems and society to extraordinary pressures over the last 30 years.

A high occurrence of poverty, especially amongst small-scale fishers, persists in Indonesia and the Philippines, where small-scale fishers and farmers are considered among the poorest of the poor. Insufficient economic alternatives often mean that fishers lack the ability to support themselves or their families without maintaining or increasing their fishing effort. At the same time, income from fishing is unpredictable; uncoordinated and unregulated efforts can lead to market flooding, driving down prices, increasing waste, and contributing to ever-increasing fishing pressure. Because of these economic realities, fishers are often unable to consider the long-term benefits of conserving and sustainably using their marine resources because they must cope with short-term realities. Indigenous peoples are disproportionately represented among the rural poor.

**E. Executing Entity's Institutional Capacity for Safeguard Policies:**

Rare has experience implementing USAID, World Bank and GEF (through Implementing Agency – UNDP) safeguard policies, to ensure that potential negative environmental and social impacts on important resources such as land, soils, water, biodiversity (including fish), vegetation, local communities and the society at large are adequately managed and positive impacts are enhanced.

As a part of its corporate governance, each Meloy Fund investee will have to undergo a strict due diligence process and adhere to clearly defined social and environmental impact criteria. The business model of investees should be inextricably linked to the need for sustainable environmental resources, and comply to minimum environmental and social standards (still to be fully defined).

Rare has staff permanently based in Indonesia and the Philippines under its Fish Forever program, and staff have developed strong relationships with key stakeholders of community fisheries, including public and private sector actors. Rare's local staff will be able to help the fund identify the most promising community fisheries and businesses with whom they work.

**II. SAFEGUARD AND POLICIES**

**Environmental and Social Safeguards:**

Safeguard Triggered	Yes	No	TBD	Date Completed
<b>1. Environmental &amp; Social Impact Assessment (ESIA)</b>		X		
<i>Justification: No significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented is anticipated</i>				
<b>2. Natural Habitats</b>		X		
<i>Justification: The project is not proposing to alter natural habitats</i>				
<b>3. Involuntary Resettlement</b>	X			
<i>Justification: The project does not propose any involuntary resettlement however, access/use of natural resources may be restricted: Under Component 2 "The TURF + reserve systems provide local fishers with exclusive access to their fishing grounds <b>coupled with no-take reserves that they agree to protect.</b>"</i>				
<b>4. Indigenous Peoples</b>	X			
<i>Justification: The project will work with indigenous peoples "to increase their access as potential direct borrowers or business partners in Meloy Fund financing."</i>				
<b>5. Pest Management</b>		X		
<i>Justification: There are no proposed activities related to pest management.</i>				
<b>6. Physical &amp; Cultural Resources</b>		X		
<i>Justification: There are no proposed activities related to physical and cultural resources.</i>				
<b>7. Stakeholder Engagement</b>	X			
<i>Justification: The project will involve a variety of stakeholders including government, local communities, indigenous peoples, and businesses, among others.</i>				
<b>8. Gender mainstreaming</b>	X			
<i>Justification: The project will work with women and men, and need to ensure equal access and opportunities for both genders.</i>				
<b>9. Accountability and Grievance Mechanisms</b>	X			
<i>Justification: As a publicly funded GEF project, participants need to be able submit complaints or raise grievances with the Executing Agency and the Project Agency.</i>				

### III. KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

*From information provided in the Safeguard Screening Form, this project has triggered five safeguard polices. These are:*

- I. Restriction of Access to and Use of Natural Resources,*
- II. Indigenous Peoples,*
- III. Stakeholder Engagement,*
- IV. Gender Mainstreaming, and*
- V. Grievance Mechanism.*

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

*No indirect and/or long term impacts due to anticipated future activities are foreseen at this time.*

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts:

*The proposed approach of the project is expected to avoid or minimize adverse impacts. As such, no better alternative can be conceived at this time.*

4. Describe measures to be taken by the Executing Entity to address safeguard policy issues.

Given the non-grant nature of this project, having each borrower prepare safeguard plans could be a deterrent to the borrower participating in the project. As such, the EA is requested to prepare simplified safeguard plans for the overall project and extract from these plans, criteria/principles to be included in the Fund's Environmental, Social and Governance (ESG) Guidelines for borrowers to comply with.

*I. Restriction of Access to/Use of Natural Resources (Involuntary Resettlement policy)*

*This project may trigger restriction of access to and use of natural resources. This is can be a sensitive issue, particularly for people whose survival and livelihood depend on such resources. Stakeholder engagement will be important here and should be among the very first set of activities. The resource users need to be aware upfront of the project and how it will affect them, and the project in turn will need to address their concerns. As such, the project is **required** to prepare a simplified Process Framework document (Please refer to Appendix IV of the ESMF for guidance on preparing a Process Framework). This document will form the basis from which restriction of access to and use of natural resources criteria should be extracted and included in the Fund's ESG Guidelines for borrowers to comply with.*

*II. Indigenous Peoples*

*This project may affect indigenous peoples and communities. As such, the project is **required** to prepare a simplified IPP (Please refer to Appendix V of the ESMF for guidance on preparing an IPP) and highlight how the overall project will ensure FPIC is followed and documented. This simplified IPP will form the basis from which indigenous people criteria should be extracted and included in the Fund's ESG Guidelines for borrowers to comply with.*

*In addition, the overall project should monitor and report on the following minimum indigenous people indicators:*

- 1. Percentage of indigenous/local communities where FPIC have been followed and documented; and*
- 2. The percentage of communities where project benefit sharing has been agreed upon through the appropriate community governance mechanisms and documented*

*III. Stakeholder Engagement*

*A Stakeholder Engagement Plan (SEP) is required for all GEF funded projects. As such, the project is **required** to prepare a simplified SEP (Please refer to Appendix IX of the ESMF for guidance on preparing a SEP) which map stakeholders and highlight how the overall project will engage with stakeholders. This simplified SEP will form the basis from which stakeholder engagement criteria should be extracted and included in the Fund's G Guidelines for borrowers to comply with.*

*In addition, the overall project should monitor and report on the following minimum stakeholder*

*engagement indicators:*

1. *Number of government agencies, civil society organizations, private sector, indigenous peoples and other stakeholder groups that have been involved in the project implementation phase on an annual basis;*
2. *Number persons (sex disaggregated) that have been involved in project implementation phase (on an annual basis); and*
3. *Number of engagement (e.g. meeting, workshops, consultations) with stakeholders during the project implementation phase (on an annual basis)*

IV. Gender

*A Gender Mainstreaming Plan (GMP) is required for all GEF funded projects. As such, the project is **required** to prepare a simplified GMP/desk assessment and highlight how the overall project will address gender issues. This assessment will form the basis from which gender criteria should be extracted and included in the Fund's ESG Guidelines for borrowers to comply with.*

*In addition, the overall project should monitor and report on the following minimum gender indicators:*

1. *Number of men and women that participated in project activities (e.g. meetings, workshops, consultations);*
2. *Number of men and women that received benefits (e.g. employment, income generating activities, training, access to natural resources, land tenure or resource rights, equipment, leadership roles) from the project; and if relevant*
3. *Number of strategies, plans (e.g. management plans and land use plans) and policies derived from the project that include gender considerations.*

V. Grievance Mechanism

*An Accountability and Grievance Mechanism is **required** to ensure people affected by the project are able to bring their grievances to the Executing Entity for consideration and redress. While the project will adhere to the Institutional Limited Partners Association's principles and follow the Practice Standards for Conservation Trust Funds, these mechanisms must be outlined, approved by the CI-GEF Agency and in place before the start of project activities, and also disclosed to all stakeholders in a manner/means that best suits the local context.*

*In addition, the overall project should monitor and report on the following minimum accountability and grievance indicators:*

1. *Number of conflict and complaint cases (Accountability and Grievance) reported to the project's Accountability and Grievance Mechanism; and*
2. *Percentage of conflict and complaint cases reported to the project's Accountability and Grievance Mechanism that have been addressed.*

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people:

*The key stakeholders are the government, technical expert network, conservation partners, fisher cooperatives, fish aggregators and processors, early stage enterprises, buyers, seafood business experts, fisheries certifiers, corporate sector, women groups, indigenous peoples, local communities, research agencies, and NGOs.*



*The mechanisms for consultation and disclosure should be culturally appropriate, gender sensitive, effective, and in keeping with local customs. Engagement can take the form of village meetings, group meetings, workshops, interviews/surveys, etc. and done using local languages and methods. The Executing Entity should take these contexts into consideration when designing engagement activities.*

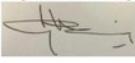
#### IV. PROJECT CATEGORIZATION

PROJECT CATEGORY	Category A	Category B	Category C
			X
<i>Justification: The proposed project activities are likely to have minimal or no adverse environmental and social impacts.</i>			

#### V. EXPECTED DISCLOSURE DATES

Safeguard Plan	CI Disclosure Date	In-Country Disclosure Date
Environmental & Social Impact Assessment (ESIA)	NA	NA
Environmental Management Plan (EMP)	NA	NA
Voluntary Resettlement Action Plan (V- RAP)	NA	NA
Process Framework for Restriction of Access to Natural Resources	Within 15 days of CI-GEF approval	Within 15 days of CI-GEF approval
Indigenous Peoples Plan (IPP)	Within 15 days of CI-GEF approval	Within 15 days of CI-GEF approval
Pest Management Plan (PMP)	NA	NA
Stakeholder Engagement Plan (SEP)	Within 15 days of CI-GEF approval	Within 15 days of CI-GEF approval
Gender Mainstreaming Plan (GMP)	Within 15 days of CI-GEF approval	Within 15 days of CI-GEF approval
Accountability and Grievance Mechanism	Within 15 days of CI-GEF approval	Within 15 days of CI-GEF approval

#### VI. APPROVALS

<i>Signed and submitted by:</i>		
Senior Director, Project Development and Implementation: 	Name: Free De Koning	Date: 2017-01-16
<i>Approved by:</i>		
Safeguard Manager: 	Name: Ian Kisson	Date: 2017-01-15
Project Manager: 	Name: Free De Koning	Date: 2017-01-16

## **APPENDIX V: Meloy Fund Environmental and Social (E&S) Guidelines**

### **INTRODUCTION**

The Meloy Fund for Sustainable Community Fisheries is a USD 18 – 20 million impact investment vehicle that will incentivize the development and adoption of sustainable fisheries by making debt and equity investments in fishing-related enterprises that support the recovery of Small-scale Fisheries (SSF). In addition to providing a reasonable financial return, the fund is projected to have a positive impact on the lives of 100,000 fishers and their household members, and place 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems (including marine habitats of coral reefs, seagrass, mangroves and oceanic), under improved management.

This document outlines the Meloy Fund’s E&S Guidelines, designed to ensure that for the Fund’s investees:

- 1) Clear minimum standards for sourcing sustainable fish, or otherwise participating in the fishing supply chain, are agreed upon and monitored;
- 2) General environmental and social minimums are met regarding the holistic impact of an investee’s operations;
- 3) Impact targets related to the use of the investment and expectations of growth over time are agreed upon, which in some cases may inform financial rewards or penalties; and
- 4) A comprehensive multi-stakeholder roadmap is produced and implemented to ensure fisheries recovery over time (via a FIP).

The guidelines and strategies described herein have been developed via the consultation of a variety of experts in the field, including fisheries experts, (impact) investors, business owners, and potential investees, and importantly was tested and implemented with the Fund’s first investment in December 2016.

The Fund considers this to be a living document that will likely be refined throughout the life of the Meloy Fund, informed by the repeated implementation with various Meloy Fund investees, and through the ongoing interaction of our partners and experts in the sector, working together to responsibly drive private investment to achieve sustainable fisheries.

### **ENVIRONMENTAL AND SOCIAL (E&S) GUIDELINES**

The Fund’s E&S Guidelines are based on the following three pillars:

1. Meloy Fund E&S Minimum Standards
2. Investee Annual Impact Goals
3. Fishery Improvement Project (FIP) development and implementation

The sections below detail the three pillars listed above. The last section of this document explains how these guidelines will be implemented by Meloy Fund investees and monitored by Fund management.

#### **1. Meloy Fund Environmental and Social Minimum Standards**

The E&S minimum standards seek to enshrine in the investee a “no-harm” principle, and include minimum fisheries-specific standards, applicable to fisheries from which the investee sources seafood, and general environmental and social standards, applicable to the investees’ entire operations. The investee will need to comply with these minimum standards before an investment is approved, and the Fund will audit compliance throughout the life of the investment. Such minimum standards may also apply to other businesses that may be wholly-owned by the majority shareholders in the investee.

## 1.1. Fisheries minimum standards

### Definitions

- Site: Geographic area within which a fishery takes place, such as a village, a municipality/district or province.
- Target species: The set of species that are being sourced from the investee at a specific site, for which improvements are sought.

### No threat to the long-term health of target species' population

1.1.1. Target species not endangered and no sign of depletion (applicable to [90 percent]<sup>99</sup> of species sourced from a given site) as defined below:

- The target species Productivity Susceptibility Analysis (PSA) score shall not exceed [2]<sup>100,101</sup>.
- Target species are not listed as endangered or threatened by any major national or international or the IUCN red-list for endangered species for the region from which a target species is sourced from.

1.1.2. Target species size (applicable to [90 percent] of species sourced from a given site):  
At least the higher of [30 percent]<sup>102</sup> of individuals of every target species are above length at first maturity ( $L_{M50}$ ), or the minimum defined by national laws.  $L_{M50}$  is the length at which 50 percent of individual fish of a given species have reached first maturity.  $L_{M50}$  is often used as a data-poor indicator for sustainability.

1.1.3. No negative impact on ecosystem and habitat (applicable to [90 percent] of species sourced from a given site) as per below:

- No destructive gear used to catch target species. The fishing gear is highly selective for the defined target species. At least 90 percent of the total catch obtained by the gear consists of target species. There is no systematic discarding as all caught organisms are either used for food or for baiting, or released alive without harming their physical integrity.
- Target species do not include ecosystem keystone species of coral reefs, mangroves, seagrass meadows or estuaries. Keystone species are organisms that have a major influence on the resilience of their ecosystems, such as parrotfish. In case of doubt, biological assessments of a given site have to conclude that target species do not include ecosystem keystone species.
- The fishery does not have an unacceptable impact on the physical structure of the seafloor or its associated biological communities. The habitat impact is given by the interaction of the destructiveness of the gear and the sensitivity of the habitat. Highly vulnerable habitats typically recover very slowly from structural damage by fishing gear. The table below is used to determine the potential impacts that different fishing gear may have on various habitat

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<sup>99</sup> All figures between brackets are subject to change.

<sup>100</sup> A PSA is a semi-quantitative approach to assess the risk of fishing impact on a population in data poor cases by combining scores of productivity and susceptibility attributes. Productivity attributes influence the intrinsic rate of population increase, while susceptibility attributes are reflected in the catch removal portion. The productivity and susceptibility attributes are scored as 1 (low), 2 (medium) or 3 (high) risk, missing attributes are scored as a 3. These scores are then plotted for visualization on a PSA plot in the productivity-susceptibility space. The Euclidean distance from the origin determines the combined PSA score from the productivity score P (x-axis) and the susceptibility score S (y-axis).]

<sup>101</sup> The precise PSA target number will be determined after individual species analysis on their biological potential for recovery to be conducted throughout Q1 2017.

<sup>102</sup> The precise target species percent size will be determined after individual species analysis.

types (adopted by Meliomar Inc., based on Seafood Watch methodology). For impact values <3 no or negligible impact of the physical structure of the seafloor or its associated biological communities is expected.

	mud		sand		granule-pebble		cobble		boulder		Biogenic habitats***
	low	high	low	high	low	high	low	high	low	high	
Natural disturbance*											
Line, vertical (+B1/2)	0.5	0.5	0.6	0.5	0.8	0.8	0.1	0.9	1.0	1.0	1.3
Longline, bottom	0.7	0.7	0.9	0.8	1.4	1.3	1.6	1.5	1.7	1.7	2
Traps	1.3	1.3	1.2	1.2	1.8	1.7	2	1.9	2.1	2.1	1.3
Gillnet, bottom	1.3	1.3	1.5	1.4	2	1.9	2.2	2.1	2.3	2.3	3
Seine, bottom (=BL,G+TBO/2)	1.8	1.7	2	1.9	2.5	2.3	2.7	2.5	2.6	2.6	3.6
Trawl, shrimp (=BL,TBO/2)**	2.2	2.1	2.5	2.3	3	2.6	3	2.8	3	2.9	4.1
Trawl, bottom otter	2.6	2.4	2.9	2.7	3.4	2.9	3.4	3.1	3.3	3.2	4.6
Dredge and trawl, bottom beam	2.6	2.4	3	2.8	3.5	3	3.5	3.2	3.3	3.2	5.1
Dredge, hydraulic clam	n/a****		4.4	4	4.9	4.5	n/a****				
Explosives	6	6	6	6	6	6	6	6	6	6	6

\* The energy regime is used here as a proxy for natural disturbance, with a cutoff between low and high stability at 60m depth.

\*\* Shrimp trawls tend to be lighter than bottom otter trawls for fish.

\*\*\* Refer to this column for biogenic habitats, when the habitat is formed by living organism, such coral reefs, mangroves, or seagrass meadows. Also if not included in the list above.

\*\*\*\* Scores not determined for the hydraulic dredges in these habitats as the gear is assumed to not operate in them.

1.1.4. Compliance with local and national fisheries regulations (applicable to 100 percent of species sourced from a given site)

- A legal and institutional framework is in place at all sites from which target species are sourced to avoid IUU fishing.
- Fishing operations are reported and comply with the national laws and regulations, vessels are registered and fishers are licensed.
- All seafood sourced by the investee are related to fisheries that comply with non-IUU conditions, are not in the IUCN red list, and are not listed as endangered, threatened or protected by national law.
- Where target species regulations are absent, and/or data is insufficient for science-based management plans, a precautionary management plan is designed and implemented before any sourcing of products starts. A precautionary management plan can include size restrictions, seasonal closures, gear specifications, no-take areas and other management measures that reduce the threat of overfishing of target species as much as possible and allows rebuilding of stocks and habitat.

Fishing Community Social Aspects

1.1.5. Pricing of target species at landing sites is transparent and based on information accessible to all fishers.

1.1.6. The fishery product must not be a staple food and/or a primary source of protein<sup>103</sup> for the local population and hence not interfere with the food security of human populations where the product originates.

**1.2. General Environmental and Social requirements**

1.2.1. The investee will operate in compliance with all applicable health and safety, environmental, and labor laws and regulations.

<sup>103</sup> Primary source of protein is defined as representing at least 50 percent of the daily protein requirements of an adult, FAO “State of World Fisheries and Aquaculture, 2012”.

- 1.2.2. The investee will report at least annually, and on serious social or environmental incidents immediately, with plans for corrective actions and follow-up.
- 1.2.3. The investee will pay wages and overtime remuneration which meet or exceed industry or legal national minima.
- 1.2.4. The investee will not allow illegal or excessive working hours, which pose a risk to health and safety.
- 1.2.5. No child labor below 15 years old, or 13 years for light work<sup>104</sup>, or as defined by national child labor laws.
- 1.2.6. The investee will treat employees and suppliers fairly in terms of recruitment, progression, terms and conditions of work and representation, irrespective of gender, race, color, disability, political opinion, sexual orientation, age, religion, social or ethnic origin, or HIV status. The investee will not support investment activities that cause gender-related adverse impacts.
- 1.2.7. The investee will allow consultative work-place structures and associations which provide employees with an opportunity to present their views to management.
- 1.2.8. For remote operations involving the relocation of employees for extended periods of time, the Investee will ensure that such employees have access to adequate housing and basic services.
- 1.2.9. The investee will, in cases of investments anticipating collective dismissals of more than 10 percent of the workforce and/or more than a total of 50 workers, develop a plan to mitigate the adverse impacts of retrenchment in line with national law and good industry practice, based on the principles of non-discrimination and consultation to be reflected in the final retrenchment plan.
- 1.2.10. The investee will work to enhance positive development impact effects on the environment, employees, and all stakeholders (including Indigenous Peoples and Affected Communities) by adopting policies and committing to continuous improvements on environmental and social matters.
- 1.2.11. The investee will not support investment activities that cause adverse impacts on Indigenous Peoples or Affected Communities.
- 1.2.12. With support from the Fund, the investee will follow the FPIC standard of engagement by ensuring Indigenous Peoples'/Affected Communities' rights to self-determination, participation, and decision-making.
- 1.2.13. The investee will not engage in activities that a) require involuntary resettlement on land acquisition; b) would involve the taking of shelter and other assets belonging to the local

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<sup>104</sup> As per ILO's Minimum Age Convention, 1973 (No. 138). Light work is defined as:

“(a) not likely to be harmful to their health or development; and

(b) not such as to prejudice their attendance at school, their participation in vocational orientation or training programs approved by the competent authority or their capacity to benefit from the instruction received.”

communities or individuals; or c) would lead to involuntary restrictions of access to and use of natural resources.

1.2.14. In cases where resettlement and/or the restricted access to natural resources are identified as potential impacts of an investment, the Fund will assist investees with the consultation process (using the FPIC standard of engagement) to communicate to the Affected Communities about any investments to be made and ensure community support and buy-in, prior to the investment being made.

1.2.15. The investee will work with the Fund to resolve relevant conflicts and/or complaints that are formally submitted to the Fund’s Accountability and Grievance Mechanism.

## 2. Investee Annual Impact Goals

The Meloy Fund will set increasing annual impact goals for every investment, which ultimately roll up to the Meloy Fund’s own impact goals (to have a positive impact on the lives of 100,000 fishers and their household members, and place 1.2 million hectares (12,000km<sup>2</sup>) of coral reef ecosystems under improved sustainable management.

The annual impact goals are expected to be measured as follows:

Metric	Description
<i>Environmental Impact</i>	
Total nearshore fishery landing sites	# landing sites from which investee sourced nearshore seafood
Estimated coral reef ecosystem area covered by landing site	Estimated average hectares’ coral reef ecosystem within the fishery operation range
Total coral reef ecosystem area under improved management	# nearshore fishery landing sites from which investee sources nearshore seafood * estimated average hectares’ coral reef ecosystem (i.e. coral reefs, seagrass, and mangroves) within the fishery operation range
<i>Social Impact</i>	
Volume seafood purchased from fishers	Total volume (tons) of seafood purchased from fishers
Purchase price seafood purchased from fishers	Average price (in local currency / kilo) seafood purchased from fishers
Estimated price premium	Additional price paid to fishers for seafood (in local currency / kilo)
Smallholder fisher vessels sourced from	# vessels from which investee purchased seafood
Estimated fishers per vessel	# fishers per vessel from which investee purchased seafood
Total smallholder fishers impacted	# vessels from which investee purchased seafood * # fishers per vessel from which investee purchased seafood
Total household members impacted	Total smallholder fishers impacted * average household size

In many cases, annual impact goals may increase on an annual basis tied with projected investee growth. If in any given year, the investee exceeds annual impact goals by a certain margin, the Meloy Fund may also include financial rewards as detailed in the investment agreement.

### **3. Fishery Improvement Project (FIP) Development and Implementation**

In order to catalyze the adoption of sustainable fisheries, the Meloy Fund, the Fund investees, and Fish Forever<sup>105</sup> will jointly commit to actively developing FIPs (as defined by the Conservation Alliance for Seafood Solutions) for key target species relevant to the targeted impact of the Meloy Fund's investment. In cases where the investee sources species from a site for which a formal Conservation Alliance for Seafood Solution compliant FIP is not feasible, the Meloy Fund and the investee will agree on cost-efficient ways to promote sustainability aspects of a fishery so that the fishery can improve on species-specific sustainability criteria such as length/weight at capture, spawning and recruitment areas, or spawning seasons, among others.

In order to develop a FIP, the Fund, the Fund investee, and Fish Forever will jointly develop a five-year FIP roadmap that will include annual milestones and impact goals, and is directly tied with the Meloy Fund E&S (fisheries) minimum standards<sup>106</sup>. The FIP roadmap will at least include the following core components: a) data collection; b) MSC assessment, or similar alternative<sup>107</sup>; c) stakeholder consultation and management; d) work-plan development and implementation; and e) public accountability.

The Parties will develop a plan for consultation with the Affected Community (including Indigenous Peoples as appropriate) and keep reports from the process and outcomes from any community consultations. The consultations will be follow the FPIC standard of engagement by ensuring Indigenous Peoples'/Affected Communities' rights to self-determination, participation, and decision-making. Additionally, the parties will ensure that men and women have equitable access to attend relevant decision-making meetings, and will consider any cultural, social, religious or gender constraints when organizing decision making forums.

The investee will lead the implementation of the FIP roadmap and will be supported by the Meloy Fund and Fish Forever technical staff, except on Fish Forever sites, where Fish Forever will lead the implementation. The investee will lead the installation of infrastructure and logistics for seafood raw material sourcing on all fishery sites, including Fish Forever sites.

All parties will jointly agree on a high-level budget to implement the FIP roadmap, for which the parties will jointly fundraise as appropriate.

Although each FIP roadmap may vary in level of detail, every roadmap will at least include the following milestones and goals:

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<sup>105</sup> Fish Forever is Rare's global coastal sustainable fisheries program. It provides on-the-ground training, support, and community engagement for fisheries management and ensures that benefits accrue to local communities as well as to the environment.

<sup>106</sup> For shorter investments, the Meloy Fund will seek to adjust sustainability goals within reasonable timeframes

<sup>107</sup> Generally, FIPs lead towards MSC certification but this is often too expensive or even unfeasible for tropical small-scale fisheries. As a result, the Meloy Fund and Rare are working with various parties to develop a relevant scheme that may be more applicable.

### **FIP pre-implementation stage (prior to investment disbursement)**

In advance of the investment being disbursed the investee will have accomplished the following milestones:

- Key agencies and players for the success of a FIP are identified through a landscape analysis of players in the fishery supply chain of target species (NGOs, fisher cooperatives, local and regional government, value chain actors).
- A monitoring and evaluation plan is drafted to collect species-specific length frequency measurements of [5-10 percent], as well as total volume of each target species at least once per week throughout the year.

### **FIP Implementation Stage 1**

The first stage of the FIP roadmap is expected to take up to 24 months, with the start date dependent on the availability of external grant funding.

Throughout this first stage, the following milestones are expected to be achieved:

- Data collection started: Species-specific length-frequency measurements of [5-10 percent] of total landings taken at least once per week at main landing sites (total catch per species), and entered in database. Data collection should start at every site within [2-6] months of investment<sup>108</sup>.
- Data-less safeguards applied: Based on existing primary and secondary data (including local ecological knowledge), precautionary measures are taken to recover fish stock biomass.
- Key FIP stakeholders consulted: Recurring meetings with all FIP stakeholders are held, financial and time-commitments in place for all stakeholders.

The impact to be achieved in this stage is as follows:

- Destructive fishing eliminated: All sources of fishing is eliminated that degrades habitat such as nearshore bottom trawling, dynamite fishing and cyanide.
- [40 percent] of individuals at maturity: The fisheries-dependent data collected at landing sites reveals that at least [40 percent] of individuals caught of every target species are above age of maturity.

### **FIP Implementation Stage 2**

After Stage 1 milestones are completed, Stage 2 begins and includes the following objectives:

- An appropriate pre-assessment conducted: A third party group assesses target species at each sourced site against pre-defined criteria. Based on the assessment, a scoping document is drafted outlining strategies to address shortcomings.
- Work plan agreed: A time-bound work plan is in place based on the scoping document, outlining key objectives and deliverables; a budget exists to cover all costs of the work plan; the work plan includes a clearly defined management plan with species specific strategies.
- FIP officially launched.

Stage 2 is expected to take up to an additional 24 months (years 3-4 from investment disbursement) to be fully implemented, and is expected to result in the following impact:

- Overfishing under control: Fishing mortality is calculated based on length frequency measures. "Overfishing under control" is defined as  $F/FMSY < [2]$ , at which point effort is still twice as high as it should be.

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<sup>108</sup> Cost allocation to be determined individually. Final timeframe will depend on number of sites.

- [50 percent] of individuals at maturity: A simple population growth model should be used to estimate reductions in effort to reach this goal.

### **FIP Implementation Stage 3**

The last stage of the FIP implementation is Stage 3. This stage may take up to 3 years to be fully implemented and involves achieving the following milestones:

- Improvement strategies executed: Species-specific management plans are implemented, surveilled and enforced. Improvement strategies must have a science-based rationale to credibly reach species-specific goals over a 3-year process.
- Fisheries adaptively managed: At the end of each year, newly gathered data is used to adapt management measures to meet conservation goals.
- Progress tracked and made public: Every [6 months], tracking report is published on FIP-web portal including supportive scientific documents.

At this point, the fishery is fully sustainable. Target impact is as follows:

- [80 percent] of individuals at maturity: A simple population growth model should be used to estimate reductions in effort to reach this goal.
- Overfishing ceased: Fishing mortality is decreased every year such that by Year 5  $F/FMSY < [1.2]$ . In the preceding years, fishing mortality will need to show steady improvements. More precise annual targets will be defined tied to the health of the fisheries.
- Biomass at healthy levels: Fisheries population has recovered to  $B/BMSY > [0.8]$ . In the preceding years, population will need to show steady improvements. More precise annual targets will be defined tied to the health of the fisheries.

### **GUIDELINES IMPLEMENTATION**

To ensure the effective compliance and implementation of the E&S Guidelines, the Meloy Fund will develop specific processes for each of the three pillars described in this document. These processes are relevant throughout all stages in the life of an investment, i.e. due diligence, investment structuring, and investment supervision.

During due diligence, the Meloy Fund investment team will conduct a full analysis of the prospective investee to appraise the risk of a potential investment. Although this analysis is typically done from a financial standpoint, the Fund will also include a full E&S analysis designed to assess the investee's ability to comply with E&S minimum standards, and to understand the potential for impact given the investment under consideration. If at the outset the prospective investee is not fully compliant with any of the standards, the investment team, with technical input from Fish Forever, and the prospective investee will develop a plan to remedy the latter's non-compliance before an investment can move forward.

Further, the Meloy Fund's financial model for the investment build during due diligence includes an analysis of the annual impact potential, which changes over time based on the company's projected financial performance.

Importantly, any term sheet offered by the Meloy Fund will include detailed covenants related to adhering to the Fund's minimum standards and proposed annual impact goals, as well as any potential financial rewards or penalties as applicable due to their achievement.

After an investment is approved by the Fund, during the investment supervision stage the investee will be required to report on its progress against its annual impact goals, typically on a quarterly basis. In order to ensure the investee's full compliance with the Fund's minimum standards and the accuracy of reported impacts, investees will be subject to an Environmental and Social audit every three years. These audits are expected to be completed by expert third parties to be hired locally.

Finally, the investment team and the investee will collaborate to roll-out the FIP roadmap as defined in the investment agreement between both parties. Depending on the needs of each investee this may involve fundraising, impact assessment, execution support, and collection of metrics.

Throughout the investment supervision stage, there may be instances of non-compliance with the Meloy Fund's E&S minimum standards, agreed upon impact goals, or the FIP roadmap. In these cases, the Fund will have a constructive approach and seek to constructively support the company in remedying its non-compliance. Generally, the curation period will be between 30 days to 6 months – tied to the gravity of the specific non-compliance. Longer curation periods may be selectively approved by Meloy Fund senior management.

The additional costs of systematically implementing these E&S Guidelines across its portfolio have been partially included in the budget of the Meloy Fund GP by allocating a portion of the time from the investment team.

That said, due to the size of the Meloy Fund and its commitment to operationalizing and supervising the achievement of these guidelines, the Fund's operating budget is not expected to be able to cover all necessary activities, and will actively seek partnerships and other sources of complimentary funding to defray costs.

## **SAFEGUARD COMPLIANCE PLANS**

### **APPENDIX VI: Compliance Plan for the Involuntary Resettlement and Restriction of Access to Natural Resources Safeguard**

Each of the Fish Forever sites in Indonesia and the Philippines have undergone an extensive protocol for site evaluation and selection that depends on community receptivity - effectively vetting the initiative with local community members to determine whether they understand the Fish Forever approach and would accept its implementation. As such, there are no communities where Fish Forever is being implemented without prior formal vetting by and engagement with local stakeholders. The Fish Forever site selection process requires Rare to determine that the community has the interest, receptivity, and actual baseline capacity to engage in implementation. Community consultation is one of the critical aspects of Rare's Fish Forever site selection methodology.

Under Fish Forever, affected local communities (including Indigenous Peoples) are directly involved in the design, declaration, and management of the TURF + reserves, their zoning and enforcement systems. TURF boundaries follow traditional tenure lines and are established through a bottom up, participatory process, based on best available scientific data, local ecological knowledge and agreed community goals for the TURF + reserve. Fish Forever also works to ensure that traceable and transparent participatory processes for decision making regarding the TURF + reserve management, as well as multi-stakeholder TURF + reserve management bodies with clearly defined authority and responsibilities are put in place with participation from the local fishing community.

To ensure jointly developed management frameworks in the communities from which the investees source, a close three-way partnership between the Meloy Fund, the investee, and Rare's Fish Forever program is needed.

Based on the Fish Forever site selection criteria and Rare's community-led approach, the Meloy Fund will not support activities/investments that would require involuntary resettlement or land acquisition, or the taking of shelter and other assets belonging to the local communities or individuals. Furthermore, the Meloy Fund will not support activities/investments that would lead to involuntary restrictions of access to and use of natural resources (see requirement 1.2.13 of the E&S Guidelines).

However, the Meloy Fund may support investments which would involve voluntary resettlement (although this is extremely unlikely) and/or voluntary restricted access to natural resources, but only where consent of affected community has been clearly obtained and documented. Such Meloy Fund investments would only take place following well documented consultation (i.e. using FPIC standards of engagement) with the affected stakeholders, while also minimizing and compensating for adverse impacts on the communities (see requirements 1.2.10, 1.2.11, 1.2.12, 1.2.13, 1.2.14 of the E&S Guidelines).

Fish Forever seeks to promote the improvement of living standards for local communities. Thus, any voluntary resettlement/restricted access activities triggered by Meloy Fund investments would need to result in measurable improvements in the economic conditions and social well-being of affected people and communities. The ultimate aim will be to select investments that do not translate into the need for resettlement and/or restricted access to natural resources, by undertaking a thorough due diligence process.

Although it is not anticipated, in those highly exceptional cases where voluntary resettlement has been deemed as the best option, a Voluntary Resettlement Action Plan (V-RAP) will be required, and should be developed with the informed participation of affected communities and relevant stakeholders. The V-RAP must identify all people affected by the investment and all adverse impacts on their livelihoods associated with the investment's activities.

Moreover, if needed, a Restriction of Access to Natural Resources Plan may also be developed to provide more detail on the arrangements to assist affected persons to improve or restore their livelihoods. However, targeted investment (natural) resources must not be a staple food and/or a primary source of protein for the affected local population and hence not interfere with the food security of human populations where the product originates (see requirement 1.2.6 of the E&S Guidelines).

The project will monitor the following indicators throughout the life of the Fund:

- Percentage of sites where a formalized decision-making process regarding natural resource use and access was facilitated by Rare/Fish Forever
- Percentage of sites where a decision regarding natural resource use and access rights was achieved
- Percentage of sites that have a high level of satisfaction with the decision achieved

#### Process Framework:

##### ➤ *Due Diligence:*

- All Meloy Fund investees must comply with the Fund's minimum Environmental & Social requirements as outlined in the Fund's E&S Guidelines (Appendix V).
- During due diligence, the investment team will also develop a "FIP roadmap" in collaboration with the investee and Rare's Fish Forever team.

##### ➤ *Stakeholder Consultation:*

- In cases where resettlement and/or the restricted access to natural resources are identified as potential impacts of an investment, through its Fish Forever program, Rare will assist investees with the consultation processes to communicate to the communities about any investments to be made and ensure community support and buy-in (prior to the investment being made).
- For such consultations, the FPIC principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands they customarily own, occupy or otherwise use, will be followed and documented. (See requirements 1.2.10, 1.2.11, 1.2.12, 1.2.13, 1.2.14 of the E&S Guidelines)
- To help catalyze rapid adoption of sustainable fisheries practices, through additional grant support, Meloy Fund investees will also jointly commit with the Fund and Fish Forever to actively engage in FIPs (see Section 3 of the E&S Guidelines).

##### ➤ *Publication of grievance redress mechanism:*

- To ensure people affected by the investments can formally submit relevant project grievances, the Fund will establish an Accountability and Grievance Mechanism for consideration and redress (see Appendix VII).

## **APPENDIX VII: Compliance Plan for the Accountability and Grievance Mechanism**

The stakeholder consultation standards as outlined under requirements 1.2.12, 1.2.14 and Section 3 of the E&S Guidelines, will ensure that the Fund's GP will be able to identify, assess and report on any conflicts with affected local populations. As outlined in Appendix VII, community consultation and buy-in is a critical aspect of Rare's Fish Forever site selection methodology, however, disputes may still arise during the roll-out of specific investments.

It is important that any complaints or claims of those affected by Meloy Fund investments are heard, investigated and resolved, and any cases of fraud, corruption or misconduct are reported, investigated and sanctioned as appropriate. The Meloy Fund requires its investee companies to have a policy and procedure in place to report any conflicts to the GP within a timely fashion, and as referenced under requirement 1.2.15 of the E&S Guidelines, will work with the Fund to resolve relevant conflicts and/or complaints that are formally submitted to the Meloy Fund's Accountability and Grievance Mechanism (MFAGM). The MFAGM will also be embedded within the Fund's Operations Manual.

The Fund's GP will act as the first point of contact for the Accountability and Grievance Mechanism, and in partnership with the investees, will be responsible for informing the affected communities about the Meloy Fund investments and ESMF provisions. Contact information for the GP, CI and the GEF will be made publicly available to all involved stakeholders in a language, manner and means that best suits the local context – including through stakeholder consultations and relevant outreach materials/publications (i.e. Meloy Fund webpage, newsletters etc.). Complaints regarding Meloy Fund investments can be made to Rare through different channels including, but not limited to face-to-face meetings, written complaints, telephone conversations or e-mail.

Grievances related to any aspect of the Meloy Fund will be handled through negotiations, which will be aimed at achieving consensus following the procedures outlined below:

1. Grievances will be filed by the person affected the GP, which will respond within 15 days of receipt thereof.
  - All complaints received in writing (or written when received verbally) will be documented.
  - A copy of the grievance and associated response will be sent to the CI-GEF Project Agency Team. This response should propose a process for resolving the conflict.
2. If no understanding or amicable solution can be reached, or if the affected person does not receive a response from Rare within 15 days of the registry of the complaint, he/she can appeal to CI's EthicsPoint Hotline at <https://secure.ethicspoint.com>, which should act on the complaint/grievance within 15 days of the day of its filing.
  - Alternatively, the claimant may file a claim with the Director of Compliance (DOC) who is responsible for the CI Accountability and Grievance Mechanism and who can be reached at: Director of Compliance, Conservation International, 2011 Crystal Drive, Suite 500, Arlington, VA 22202, USA.
3. If the claimant is not satisfied with the decision response from CI, the grievance may be submitted to the GEF Conflict Resolution Commissioner.

The Meloy Fund will maintain full records for any complaints filed with regards to the Fund and its activities, and will keep track of the number of conflict and complaint cases reported to the MFAGM, as well as the percent of reported complaints that have been addressed.

As outlined in the Project Monitoring Plan, the Fund will report annually on the:

- Number of conflict and complaint cases reported to the project's Accountability and Grievance Mechanism; and
- Percentage of conflict and complaint cases reported to the project's Accountability and Grievance Mechanism that have been addressed.

## **APPENDIX VIII: Compliance Plan for Stakeholder Engagement**

The Meloy Fund will work closely with local partners on the ground to develop deal flow, conduct due diligence and supervise its portfolio and its impacts. Throughout the project, the Fund will continue to engage relevant stakeholders to ensure the Fund's coordination and success. These engagements help to mitigate risks and ensure community buy-in, as well as improve selection of investees, execute due diligence processes, and protect against corruption.

Stakeholder engagement is a fundamental principle of good project design, and it is best practice to involve all stakeholders, including indigenous and other affected communities, as well as government, private sector and civil society partners, as early as possible in the preparation process and ensuring that their views and concerns are made known and taken into account. Both the Meloy Fund and Fish Forever believe that local populations and communities should have their say about projects that can affect their lives and that in return their involvement at an early stage can significantly improve the profitability and overall strength of the projects. The extent and nature of the stakeholder consultation required throughout the roll-out of the Fund's investments will depend on the results of the due diligence conducted on the investments, including the assessment of potential adverse impacts on Indigenous Peoples/affected communities, as well as the complexity of the investment impacts (see requirements 1.2.12 and 1.2.14 in the E&S Guidelines). Furthermore, Section 3 of the E&S Guidelines notes that stakeholder engagement is a key success factor throughout FIP development and implementation, and is therefore included as a "core component" of the entire FIP process from development through implementation.

### **Summary of Stakeholder Engagement Activities During Project Development**

Throughout the project development phase, the team engaged in a series of information sharing and consultation activities with a wide range of stakeholders. Engagement efforts during this period largely focused on stakeholder groups that would directly contribute to the successful development and implementation of the Fund. The consultations/activities and the stakeholders involved are summarized below.

- **Potential Investors:**  
The project development team has held targeted meetings with over 100 potential investors to the Fund from the US, Europe and SE Asia. Given the confidentiality of these discussions, specific names of the potential investors cannot be publicly disclosed.
- **Potential Investees:**  
The project development team has been working hard to identify a diverse pipeline of investees for the Fund. Identified potential investees range from domestic to multi-national enterprises, all of which will either expand or develop new product lines to benefit local fishers, while at the same time moving towards greater environmental responsibility. During this phase, initial conversations have been held with over 50 relevant businesses, leading to the identification of investment opportunities equal to nearly USD 10,000,000 in Indonesia and the Philippines. As aforementioned, during this period, the Fund's first investment was also made in Meliomar.
- **Sources of Potential Pipeline Opportunities:**  
August through September 2016, the project development team met with a diverse number organizations/companies in the region that could help direct potential investments (focused on fisheries in Indonesia and the Philippines) to the Meloy Fund and potentially collaborate through

product development. Information on the Meloy Fund, its investment criteria and E&S Guidelines was shared.

- Impact Investors:

In August and September 2016, the project development team met a number of impact investment groups to investigate potential areas of collaboration with the Meloy Fund, share lessons learned/best practices (including ESG guidelines), and gain referrals for the Fund Manager:

- Potential Partners/Project Development Partners:

During project development, the team engaged an array of organizations/companies which, through their own core competencies, could potentially add-value to the Meloy Fund activities.

- Other Relevant Initiatives:

*Blue Abadi Fund, Athelia Fund, Coastal Fisheries Initiative*

In June 2016, representatives from the Meloy Fund project development team, Fish Forever, the CI GEF Agency team, CI's Coastal Fisheries Initiative (CFI) projects in Latin America, the Blue Abadi Fund, and the Athelia Fund met at the Rare office in Arlington VA for an initial information and learning exchange, and to discuss potential areas of collaboration. Then in December 2016, additional representatives from the Athelia Fund held an informational conference call with representatives of Meloy Fund project development team and CI GEF Agency team. As the Meloy Fund moves into implementation, the initiatives will continue to keep each other informed of any opportunities for collaboration and relevant lessons learned.

*Coastal Fisheries Initiative, Challenge Fund*

In July 2017, the Meloy Fund project development team held a call with representatives from the CFI Challenge Fund to share updates on the status of the two Funds and discuss potential areas of collaboration (such as technical assistance, participation on advisory committees, Meloy Fund pipeline development etc.). As the Meloy Fund moves into implementation, both funds will continue to keep each other informed and will share opportunities for collaboration and any relevant lessons learned.

- In-Country Government Agencies

Rare's in-country teams have been in communication with the GEF operational focal points for Indonesia (Ministry of Environment and Forestry) and the Philippines (Department of Environment and Natural Resources) to inform them about the Fund, as well as other relevant government partners (i.e. the Partnership in Environmental Management for the Seas of East Asia, the Ministry of Marine Affairs and Fisheries – Indonesia, and the National Economic and Development Authority – Philippines, the Ministry of National Development Planning – Indonesia). The Fish Forever program already collaborates closely with the above-mentioned agencies and will continue to seek opportunities for further collaboration as the Fund investments roll out, new Fish Forever sites are selected, and Fishery Improvement Plans are developed.

- United States Agency of International Development (USAID)

- Development Credit Authority (DCA):

A number of meetings were held with personnel from DCA at the USAID headquarters in Washington DC to assess the potential of securing a loan guarantee for the Meloy Fund investments. The project development team continues to work closely with the DCA to conduct due diligence, discuss and agree upon the terms, negotiate the contract, etc.

- Fund Advisors/Experts:

Rare has established an “*Eco-Impact Investor Circle*” to provide guidance and expert advice as we develop and implement the Fund. This is a group of individuals who are interested in helping to de-risk investment in Rare’s programmatic focal areas (such as Fish Forever), to offer opportunities for both conservation impacts and financial returns.

The Circle hosted its kick-off event in Aspen, CO on Thursday, June 30<sup>th</sup>, in conjunction with the Aspen Ideas Festival, with 12 participants in attendance. A follow up call with the Circle was then held in November 2016. A third call has since been conducted in May 2017.

- Fish Forever:

The project development team has had ongoing discussions with the in-country Fish Forever teams to ensure they understand what the Fund is, how it affects/builds on the work of the program, its direct link to the Fish Forever/country strategies, Fish Forever’s involvement in due diligence and supervision, the Fund’s E&S guidelines, and impact measurement. Throughout the development of the project, Fish Forever country representatives have been instrumental in engaging key stakeholders, coordinating in-country communications, and organizing/participating in meetings regarding the Fund. The Fish Forever teams have contributed to the development of the project’s Results Framework and Safeguard Plans.

- Conferences and Expos:

Representatives from the project development team used the following conferences as opportunities to further promote the Fund, meet with potential investors, potential partners, and build the investment pipeline (identify potential investees).

- *Seafood Expo North America in Boston* (March 2016) – North America’s largest seafood exposition, where buyers and suppliers from around the world come together to network and conduct business.
- *Asian Venture Philanthropy Network (AVPN) conference in Hong Kong* (May 2016) – an invite-only gathering of social investors interested in Asia. Key topics included poverty alleviation, collective impact, next-generation philanthropy, social impact bonds, and capacity-building for social organizations.
- *Seafood Expo Asia in Hong Kong* (September 2016) – a trade event where buyers and suppliers of seafood from around the world come together to network and conduct business in the lucrative Hong Kong and Asia Pacific markets.
- *Sankalp South East Asia Summit* (October 2016) – the leading common-action platform for entrepreneurship and innovation, the Summit aims to connect entrepreneurs from the region with investors, corporations, service providers, and policy makers, to facilitate their growth strategies. Representatives from the project development team attended the conference at the invitation of UnLtd. Indonesia.
- *Our Ocean* (September 2016) – joint statement about the development of the Meloy Fund were made by Naoko Ishii, GEF CEO, and Rob Walton, Chair of CI’s Board of Directors, and Brett Jenks, President & CEO of Rare. This global platform offered the opportunity to announce the Meloy Fund and highlight it as a first-of-its-kind attempt to attract private impact investments into community SSF in Indonesia and the Philippines.
- *Coalition for Private Investment in Conservation (CPIC)* – representatives from the project development team were asked to present on the Meloy Fund during the Coalition’s launch event at the IUCN World Conservation Congress (August 2016), and have also participated in

CPIC meetings in both New York and Paris. CPIC’s objective is to develop new investment models and funding streams to address the gap in funding ecosystem conservation, a gap estimated at USD 200-300 billion annually. CPIC intends to serve as hub for investors, financial institutions and country-level partners with the ability to develop and implement projects that produce financial as well as environmental returns. Rare is a partner in the Coalition.

- *18th Annual Large Marine Ecosystems (LME) Meeting* (December 2016) – representatives from the project development team were asked to provide a brief presentation on the Meloy Fund. The primary objective of the Annual Meeting is to provide a global forum for GEF-funded and other marine and coastal practitioners, leaders and institutions, aimed at sharing experiences and lessons with respect to ecosystem-based governance.

*Stakeholder Engagement Plan (SEP)*

The Stakeholder Engagement Plan (SEP) will be implemented in conjunction with the Gender Mainstreaming Plan (GMP) and Indigenous Peoples Plan (IPP), thus ensuring that gender equity and Indigenous Peoples rights are maintained throughout project interactions with stakeholders. Please see the GMP in Appendix X and IPP in Appendix XI.

Stakeholder	Role/Interest in Fund	Project Effect(s) on Stakeholder	Engagement During Project Implementation
Local fisher and/or indigenous communities	Source of sustainable fishery products	Increased capacity through TA provided through Fish Forever  Increased financial incentives for the adoption of sustainable fishery practices	Local fisher and/or indigenous communities will be engaged
Fisher cooperatives	Investee and business partner	Increased capacity through TA  Increased access to financing to scale up businesses	Fisher coops working in community fisheries will be engaged as potential direct borrowers or business partners in Meloy Fund financing.
Fish aggregators and processors	Investee and business partner	Increased capacity through TA  Increased access to financing to scale up businesses	Aggregators and processors working with community fisheries will be engaged as potential direct borrowers or business partners in Meloy Fund financing.

Early stage enterprises	Investee and business partner	Increased capacity through TA Increased access to financing to scale up businesses	Early stage enterprises working with community fisheries will be engaged as potential direct borrowers or business partners in Meloy Fund financing.
Last-mile distributors, retailers, hospitality community	Potential buyers	Improved access to sustainable fish and seafood resources	Meloy Fund will seek to develop the supply chain of community fisheries and will actively engage with end buyers to build direct links with fishers as well as gain a better understanding of market demands and potential niches to be filled by small-scale fishery products.
Seafood business experts	Technical assistance	Increased access to financing to scale up businesses	Meloy Fund will work with external experts to strengthen the organizations it works with, when the required knowledge is not available in house. Main technical assistance needs are expected to revolve around best seafood management practices, operational and sales support, financial management, and corporate governance.
Fisheries certifiers	Pipeline building and technical assistance	Increased access to financing to scale up businesses	Meloy Fund will engage fishery certifiers, such as Fairtrade USA or the Marine Stewardship Council, as necessary to ensure the capture of full market value.
Local Environmental Partners and Foundations	Pipeline building and technical assistance	Increased access to financing to scale up businesses	Meloy Fund will work with organizations with a strong environmental focus and local presence, such as CI, The Nature Conservancy, Lundin Foundation, Marine Change or Pinoy Microenterprise, to build its pipeline and provide technical assistance and training to fishers.
Local, provincial and national public bodies	Legal support for fishery management and potential infrastructure; Pipeline building and potential advisory board members	Increased access to financing to scale up businesses	Given Rare's experience with community fisheries, the success of any Meloy Fund investment is partially dependent on the buy-in of local and municipal governments and, depending on the size of the investment, national ministries. Similarly, we will need to rely on government to contribute to any lacking common infrastructure,

			such as ports or roads, and to access sources of government funding at the national level. In line with other Rare initiatives, the fund will ensure that investment projects also support the government's objectives and that synergies between government priorities and the Meloy Fund are identified.
Well connected local individuals	Members of country advisory boards	Increased access to financing to scale up businesses	Meloy Fund will set up country advisory boards to assist with pipeline development and support existing investees as well as provide a broader understanding of the business, market and industry trends. The board will be composed of accomplished professionals that meet at least biannually. It is expected that some of these advisors may become mentors to investees and share with them their own personal networks.
Other impact investing funds	Co-investment partners	Increased access to financing to scale up businesses	Meloy Fund may explore potential partnerships with like-minded funds to co-invest in the same organizations
Corporate Sector	Project Finance Partners	Increased access to financing to scale up businesses	Meloy Fund will seek partners (likely as an equity holder) with the corporate sector as a partner in project finance projects focused in community fisheries.
Women's groups/cooperatives/enterprises	Investee and business partner	Increased capacity through TA Increased access to financing to scale up businesses	As a key aspect of building fishing community management capacity and ensuring that women also benefit from the project, the Meloy Fund will seek to identify women's groups/cooperatives/enterprises working with community fisheries which may be potential direct borrowers or business partners in Meloy Fund financing.
Indigenous Peoples	Investee and business partner	Increased capacity through TA Increased access to financing to scale up businesses	Given that indigenous peoples are disproportionately represented among the rural poor, the Meloy Fund will work to increase their access as potential direct borrowers or business partners in Meloy Fund financing.

			<p>The project will follow the FPIC standards of engagement by protecting Indigenous Peoples' rights to self-determination, participation, and decision-making. This project hinges on the engagement of local fishing communities, and will empower these communities to manage their marine resources, while integrating traditional governance into that management.</p>
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The project will monitor the following indicators throughout the life of the Fund:

- Number of government agencies, civil society organizations, private sector, indigenous peoples and other stakeholder groups that have been involved in the project:
- Number persons (sex disaggregated) that have been involved in project implementation phase (on an annual basis); and
- Number of engagements (e.g. meeting, workshops, consultations) with stakeholders.

## **APPENDIX IX: Compliance Plan for Gender Mainstreaming**

### **Gender Assessment**

Men and women participate in the SSF sector all over the world, but there is still a dearth of gender disaggregated data that describe their different roles in the fisheries value chain. It is still a widespread misconception that men are the only agents in the fisheries sector. However, the reality is that 47 percent of the global SSF workforce is comprised of women. This means that in the realm of sustainable fisheries management it is crucial to understand how men and women engage with SSF<sup>109</sup>. Regardless of their important contributions women remain largely invisible in the SSF sector since statistics grossly underestimate and undervalue their involvement<sup>110</sup>. What current statistics show is that men are generally the dominant players in terms of ocean fishing, fishing enforcement, and fisheries management decisions. Depending on the regional context, women are involved in different parts of the fisheries value chain. Women play key roles in the fisheries sector in terms of household livelihoods and nutrition but their work is often considered invisible. Here are some of the frequent challenges that women face in the SSF sector: exclusion from decision-making and leadership positions, lack of bargaining power in fish markets and value chains, and lack of access to information and financial services to support fishing work<sup>111</sup>.

In the SSF sector men and women often have different but complementary roles that are strongly influenced by the social, cultural, and economic context in their community. The main reason that men and women have different roles in SSF is because male-female relations vary by geographic location due to power dynamics, economic status, decision-making ability, and access to resources. Since gender asymmetries are context dependent it is crucial to examine the gendered dynamics of SSF within a specific location<sup>112</sup>. For example, in some places men have greater access to bargaining power and global value chains in terms of selling their fish. This means that men can obtain higher prices for their fish. As a result of the cultural context that often prescribes gender roles, women are often relegated to the informal sector of fisheries work. Additionally, due to their lack of financial capital women in SSF often cannot buy necessary equipment to support or expand their fisheries work, putting them at a disadvantage compared to their male peers<sup>113</sup>. Due to unequal power relations and access to fishing resources there has also been a steep rise in the incidence of HIV/AIDS in some coastal communities, as women are forced to trade sex for fish in order to feed their families when food is scarce<sup>114</sup>.

Only recognizing men's role in the SSF industry ignores a large portion of the sector, involving pre and post-harvest activities which women are heavily involved in. As a result of their different roles, men and women generate disparate kinds of SSF knowledge. For example, men might know where the best areas are for fishing, whereas, women may know the best price a certain type of fish will fetch in the market<sup>115</sup>. Both men and women must be recognized for their unique contributions to SSF in order to fully understand this sector, promote sustainable natural resource management and decrease poverty and food insecurity. To involve men and women equitably in SSF they must have equal rights in fisheries

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<sup>109</sup> Rockefeller Foundation. "Securing the Livelihoods and Nutritional Needs of Fish-Dependent Communities." May 2013.

<sup>110</sup> European Institute for Gender Equality. "Relevance of gender in the policy area." 2012.

<sup>111</sup> Kleiber, Danika. "Gender and small-scale fisheries in the Central Philippines." Memorial University of Newfoundland. Sept. 2014.

<sup>112</sup> Mitleton-Kelly, Eve. "Report on Gender & Decision Making Focusing on Ocean and Coastal Management Policy." LSE Complexity Research Group. Jan. 2015.

<sup>113</sup> UN Women. "Women play a crucial role in marine environments and fisheries economies." Sept. 2015.

<sup>114</sup> FAO. "Promoting gender equality and women's empowerment in fisheries and aquaculture." 2016.

<sup>115</sup> World Wildlife Fund. "Fisheries Management and Gender." WWF Briefing UK. 2012.

decision-making, equal compensation for fishing related work, and full access to fish workers' legal rights<sup>116</sup>. Additionally, it is important that men and women receive an equitable distribution of benefits from SSF management. Policies and governance around marine resources must better address the barriers that women face when they are relegated to the bottom of the fisheries sector.

The international policy conservation community has started to recognize in recent years the important role that gender plays in SSF. One result of this movement was the 2014 endorsement of the Guidelines for Securing Sustainable Small-Scale Fisheries in the Context of Food Security and Poverty Eradication (SSF Guidelines) created by FAO. The SSF Guidelines are the first internationally agreed instrument dedicated to the SSF sector and gender equality is one of the guiding principles. The guidelines in fact have an entire chapter explaining the importance of gender equality in SSF and encouraging communities and States to combat discrimination against women in fisheries. As a result, the SSF Guidelines have raised the profile of gender in SSF communities worldwide. The guidelines are committed to equitably involving both men and women throughout the entire value-chain process, utilizing gender-sensitive indicators and collecting sex-disaggregated statistics to mainstream gender issues in fisheries<sup>117</sup>. Creating gender-sensitive indicators for the entire fisheries value chain will hopefully give rise to more SSF projects that consider the gender dynamics related to fisheries. In the meantime, many women in SSF have difficulty securing their rights as fishers due to their lack of capital, decision-making power, etc. Due to longstanding cultural norms women are often excluded from much of the decision-making with SSF management, which is a missed opportunity for gender equitable management of natural resources like fisheries. Thus, it is imperative to implement the guidelines in order to provide equitable rights for both men and women to participate fully in the SSF sector<sup>118</sup>.

### *Philippines*

SSF work is a vital source of income and direct employment for over 1.6 million Filipinos in coastal communities<sup>119</sup>. There is misconception by some that women are not involved in the fishing sector in the Philippines. However, studies indicate that women are in fact involved in pre-harvest activities like gleaning for mollusks and other invertebrates and post-harvest fishing activities involving fish processing and selling the catch. However, according to a study in the Bohol region of the Philippines, gleaning work is rarely counted in statistics about fishing industry involvement<sup>120</sup>. Not including gleaning in employment reports for the fishing industry presents an artificially low number in terms of women's participation. A 2014 study found that in Bohol, "80 percent of women in the community were involved in fisheries activities and they generated about one quarter of the total fishing effort and of the catch biomass."<sup>121</sup> If gleaning is removed from the fishing definition, then the number of women fishers in Bohol dropped to 20 percent. In Bohol, women do not generally fish in the sea with their husbands, since the majority focus on gleaning activities.

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<sup>116</sup> Quist, Cornelia. "A Gender Analysis of the Adopted Voluntary Guidelines for Securing Sustainable Small-Scale Fisheries in the Context of Food Security and Poverty Eradication: Constraints and Opportunities." *Gender in Aquaculture and Fisheries: The Long Journey to Equality Asian Fisheries Science Special Issue 29S* (2016): 149-160 Asian Fisheries Society.

<sup>117</sup> FAO. "Towards the implementation of the SSF Guidelines in the Southeast Asia region." *FAO Fisheries and Aquaculture Proceedings 42*. Aug. 2015.

<sup>118</sup> UN Women. "Women play a crucial role in marine environments and fisheries economies." Sept. 2015.

<sup>119</sup> Perez, M.L., Pido, M.D., Garces, L.R., Salayo, N.D. "Towards Sustainable Development of Small-Scale Fisheries in the Philippines: Experiences and Lessons Learned from Eight Regional Sites." *WorldFish*. 2012.

<sup>120</sup> Kleiber, Danika. "Gender and small-scale fisheries in the Central Philippines." *Memorial University of Newfoundland*. Sept. 2014.

<sup>121</sup> *Ibid.*

It is important to include gleaning in SSF work because it represents a plethora of people who rely on fishing as their main livelihood and source of nutrition. In terms of food security and survival, 39 percent of the women gleaning in Bohol identified as subsistence fishers compared to just 8 percent of men<sup>122</sup>. Thus, even though gleaning is often seen as secondary to men's fishing it is a crucial element of subsistence and nutrition for households. Many women choose to glean in the Philippines because it offers a small but reliable food source. Others focus on gleaning due to spatial and temporal limitations on their activities due to overlapping domestic obligations<sup>123</sup>. Studies clearly explain that SSF value chain improvement initiatives are an entry point for women to become more visible stewards of fisheries. SSF projects in the Philippines have piloted ways to make value chain work more gender responsive by conscientiously engaging men and women as key stakeholders, creating monitoring and evaluation measures for SSF that are gender responsive, and conducting gender oriented training for fishery associations<sup>124</sup>. Including women's fishing activities in SSF work in the Philippines highlights the paramount ecological connection between women and men's work and supports fisheries management from an ecosystem scale<sup>125</sup>.

In the *barrangays*, or fishing villages, in the Philippines, both men and women serve as mayors and are involved in decision-making regarding fisheries management. Numerous communities even have women leading their fisheries management committees. The Philippines is also known for having very active local fisheries law enforcement teams, which women are very involved in<sup>126</sup>. Additionally, the Philippines has shifted towards a matriarchal society in recent decades with enhanced attention towards women's rights and gender equality legislation. For example, in March 2010 the Philippines government enacted Act No. 9710, "An Act Providing for the Magna Carta of Women," which was landmark legislation that included provisions on rights and benefits regarding women fishers in coastal communities<sup>127</sup>. This legislation and enabling environment for gender equality is part of the reason why the Philippines had the lowest gender-gap score in all of Asia in 2013 according to a report from the World Economic Forum<sup>128</sup>.

Gender roles are dynamic, which means that men and women may adapt their fishing roles based on changing social, environmental, or economic conditions. Enhancing women's opportunities for decision-making in SSF management could potentially shift gender roles in the Philippines. Some cases have found that increasing women's participation on community meetings has enhanced the success of resource management projects since they are more gender responsive. Additionally, MPAs in the Philippines found that high levels of women's involvement were a key factor in creating and maintaining fisheries projects<sup>129</sup>. Other studies indicate that fisheries management meetings were often characterized as a predominantly male zone in the Philippines. However, this is surprising since sometimes 70-80 percent of attendees at these outreach meetings were women<sup>130</sup>. In order to move toward gender equitable SSF in the Philippines it is crucial to involve women more in all aspects of fisheries decision-making. Women could also be trained to help collect more qualitative and quantitative data to accurately highlight their extensive work in SSF in the Philippines.

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<sup>122</sup> Ibid.

<sup>123</sup> Ibid.

<sup>124</sup> Ibid.

<sup>125</sup> Ibid.

<sup>126</sup> [FAO. "Gender Mainstreaming in Small-Scale Fisheries." Apr. 2013.](#)

<sup>127</sup> Williams, Meryl et al. "Women in Fisheries in Asia: 1978 – 2016." Apr. 2016.

<sup>128</sup> FAO. "Promoting gender equality and women's empowerment in fisheries and aquaculture." 2016.

<sup>129</sup> Kleiber, Danika. "Gender and small-scale fisheries in the Central Philippines." Memorial University of Newfoundland. Sept. 2014.

<sup>130</sup> Ibid.

## *Indonesia*

As of 2012, approximately 95 percent of the fish supplied from Indonesia was sourced by small-scale fishers<sup>131</sup>. Despite the important role of SSF in Indonesia, many people still believe that this sector is an entirely male domain, which has led to inadequate recognition of women's roles. This misconception and the invisibility of women's work has been perpetuated by a serious lack of gender disaggregated data and studies on SSF in Indonesia. However, one important study from 2012 did focus on the role of women in SSF in Pantar Island, Nusa Tenggara Timur Province, located in the area of the Alor Marine Conservation Plan of the Coral Triangle Initiative. The results of this study indicate that women do in fact participate in a range of fishery related activities which produce an importance source of food security and income for their households<sup>132</sup>.

Some of the main SSF activities that Indonesian women participate in include pre-production, fishing, seaweed farming, and post-harvest. In terms of pre-production labor, women are involved in preparing fishing equipment such as lines, baits, and nets for their fishing activities in the intertidal areas. Generally, women limited how far they went out in the water to conduct their fishing activities by focusing on mangrove areas and near-shore waters. The only time that women went further out was when they had access to motorized boats to conduct day trips. Also, the study in Pantar Island found that women spent on average three hours a day gleaning as part of their fishery work<sup>133</sup>. Women are also heavily involved in seaweed farming in Indonesian coastal communities as they work with their husbands and children to tie the seedlings to the rope, harvest the seaweed, and dry the final product. While women are generally tasked with cleaning the ropes and retying the seaweed to ensure a strong harvest, men are normally the ones responsible for marketing and transporting the sundried seaweed to local buyers. Having the opportunity to sell seaweed products has enabled Indonesian women to increase their household income and enhance their community participation<sup>134</sup>. For example, in Oelua, Indonesia women felt empowered in moving from seaweed farmers to entrepreneurs as they sold seaweed snacks and had the power to determine their own prices. Creating these seaweed products also provided the women with flexibility since they could do this work at home in conjunction with their domestic responsibilities. Overall, the women in this area enjoyed not having to farm the seaweed in the hot sun and felt that creating these seaweed products at home provided a safer and better work environment<sup>135</sup>.

Despite all of their work in the fishing sector, the study did not find that women were involved in catching pelagic fish. This work was normally conducted by men late in the evening until dawn, which is when most women are home attending to their domestic workload. However, studies show that the majority of women in Indonesia's SSF are engaged in post-harvest work. Women often process, transport, and sell the pelagic and reef fish, and mollusks in local markets. When it comes to processing, women salt the fish to keep it from spoiling when traveling far distances, or, they dry the fish in the sun. The middlemen who serve as fish buyers often negotiate directly with the wives of the fishermen in terms of purchasing fish. Some women in Indonesia spend up to 12 hours a day processing and selling fish at the nearest markets. The reality is that in Indonesia women in coastal communities spend 40-50

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<sup>131</sup> Yuerlita. "Livelihoods and Fishing Strategies of Small-scale Fishing Households Faced with Resource Decline: A Case Study of Singkarak Lake, West Sumatra, Indonesia." Aug. 2013.

<sup>132</sup> Fitriana, Ria et al. "The Role of Women in the Fishery Sector of Pantar Island, Indonesia." *Gender in Aquaculture and Fisheries: Moving the Agenda Forward Asian Fisheries Science Special Issue* Vol.25S.2012.

<sup>133</sup> Ibid.

<sup>134</sup> Zamroni, A. et al. "The development of seaweed farming as a sustainable coastal management method in Indonesia: an opportunities and constraints assessment." *WIT Transactions on Ecology and the Environment*. Vol 150. 2011.

<sup>135</sup> Fitriana, Ria. "Gender Impact Assessment of the RFLP interventions in Indonesia." 2012.

percent of their time on fishing and fishing related activities<sup>136</sup>. Another study looking at coastal communities in Aceh, Indonesia also illustrates the fact that women play an active role in the fisheries sector. Unlike other Islamic societies which restrict women's physical mobility, women in Aceh work outside and manage the fish processing sector. Even though the women in Aceh do not fish they are involved in fisheries co-management projects that recognize their important role in these coastal communities<sup>137</sup>.

Despite these accounts of women's involvement in Indonesia's SSF sector, there still remains a large, but unknown, number of women in coastal fishing communities who use simple technology such as hand lines and canoes to harvest marine resources. The magnitude of this demographic remains allusive as these women are usually identified by the Indonesian government as fishermen's wives and thus their work is classified as domestic labor instead of fisheries work. This classification system explains why the work of most women in Indonesia is excluded from the national government census collections regarding fisheries employment.

Even though women hold important roles in Indonesia's SSF sector they are often excluded in some communities from fisheries management decision-making. The fact is that trading of fish and actual fishing activities are interrelated which means that men and women in Indonesia rely on each other throughout the SSF value chain. Men and women should be jointly involved in decisions around SSF management in Indonesia as they have different types of knowledge to contribute based on their disparate roles. In order to educate communities about the gendered dynamics of SSF, women joined together in 2005 to create the fisher women's cooperative known as Puspita Bahar in Indonesia. Puspita Bahar continues to work in coastal villages to combat the marginalization of women in SSF by teaching local stakeholders about the connections between gender equality and fisheries work<sup>138</sup>. More efforts like this are needed to elevate the discourse around the important, but diverse roles, that men and women play in Indonesia's SSF sector. Additionally, government is in support of these initiatives as the Ministry of Maritime Affairs and Fisheries in Indonesia has repeatedly voiced their support for involving women more in the SSF sector as a means of enhancing prosperity in coastal communities<sup>139</sup>.

#### *Gender Mainstreaming Plan (GMP)*

Gender underlies many inequalities around power over, access to, control of, and decision-making around natural resources, and therefore understanding who uses which natural resources, and how his/her livelihood will be impacted, is critical to ensuring that investment activities do not cause undue harm to anyone, and at the same time, guides the development of socially sustainable conservation initiatives. As noted in the gender assessment above, both men and women participate in the SSF sector in the Philippines and Indonesia, playing different but complementary roles that are strongly influenced by the social, cultural, and economic contexts in their communities.

FAO's Small-Scale Fishery Guidelines are one of several international policy documents that outlines the equal rights of both men and women in the SSF sector. The Meloy Fund and Fish Forever recognize that both men and women are equally important stakeholders and supports the rights of both men and women in local communities to manage their coastal resources.

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<sup>136</sup> Ibid.

<sup>137</sup> Mittleton-Kelly, Eve. "Report on Gender & Decision Making Focusing on Ocean and Coastal Management Policy." LSE Complexity Research Group. Jan. 2015.

<sup>138</sup> Williams, Meryl et al. "Women in Fisheries in Asia: 1978 – 2016." Apr. 2016.

<sup>139</sup> Fitriana, Ria. "Gender Impact Assessment of the RFLP interventions in Indonesia." 2012.

Ensuring that both men and women have equal opportunities to participate in and benefit from the Meloy Fund can be achieved by mainstreaming gender dimensions throughout the investment and FIP development process. One of the goals of this GMP is to ensure that, for relevant investments<sup>140</sup>, gender-related adverse impacts are avoided, minimized and/or mitigated. This goal is also reflected under requirement 1.2.6 of the E&S Guidelines.

The GMP identifies specific actions that the project will take, noting that the Meloy Fund investees will have different capacities, needs and experiences in integrating gender into their business investments and operational structures.

Considerations	Action	Indicators
Will men and women have the potential to equitably enjoy benefits (real or perceived) from the investment?	Given that men and women are often involved in different parts of the value chain due to gender roles, as the investment pipeline allows, the Meloy Fund will aim to make diversified portfolio investments across all segments of the fisheries value chain to help ensure that the fund equitably benefits both men and women.	Output Indicator 1.1.1b(i): Number fishers and fish workers with increased earnings through investments, disaggregated by gender of beneficiaries at Fish Forever sites  Output Indicator 1.1.1b(ii): Average percent increment in profit per unit effort (PPUE) compared to the baseline at Fish Forever sites, disaggregated by gender as feasible
Will men and women be equally engaged in relevant project activities?	The project team will consider the different barriers that men and women might face in attending project related activities and decision-making meetings, as well as any cultural, social, religious or gender constraints when organizing decision making forums to ensure that both men and women can have equal access to meetings.  Furthermore, the team will work to ensure that communications regarding project activities are equally accessible and targeted to both men and women.	Output Indicator 2.2.1: Number of constituents, disaggregated by gender, in coastal communities reached through Pride campaigns over the course of the project at targeted Fish Forever sites  Gender Indicator 1: Number of men and women that participated in project activities (e.g. meetings, workshops, consultations)
Have gender considerations been incorporated relevant strategies and plans?		Gender Indicator 2: Number of strategies, plans (e.g. FIPs) and policies derived from the project that include gender considerations

The project will monitor the following indicators throughout the life of the Fund:

- Number of men and women that participated in project activities (e.g. meetings, workshops, consultations);
- Number of men and women that received benefits (e.g. employment, income generating activities, training, access to natural resources, land tenure or resource rights, equipment, leadership roles) from the project; and if relevant

<sup>140</sup> Depending on the type of investment and scope of activities, the degree of relevance of gender dimensions may vary. Similarly, depending on the capacities and interest of the investees, the level of gender mainstreaming opportunity may vary.

- Number of strategies, plans (e.g. management plans and land use plans) and policies derived from the project that include gender considerations.

## **APPENDIX X: Compliance Plan for Indigenous Peoples**

### *Introduction*

Policies that shape fisheries rights can play a major role in promoting and improving the equity of resource distribution which is an implicit theme in analyzing indigenous rights. With clear-cut use rights, conservation measures to protect natural resources become more compatible with the communities' long-term interests, which allows for the adoption of a conservation ethic and responsible fishing practices, and greater compliance with regulations.

### *Indonesia*

Indonesia has a diverse population of over 250 million people, which is made of up over 300 different ethnic groups. The Ministry of Social Affairs identifies some indigenous communities as *komunitas adat terpencil* - or geographically-isolated indigenous communities.<sup>141</sup> However, many more peoples self-identify or are considered by others as indigenous.<sup>142</sup> The national indigenous peoples' organization, *Aliansi Masyarakat Adat Nusantara*, estimates that the number of indigenous peoples in Indonesia falls between 50 and 70 million people.<sup>143</sup>

BAPPENAS (National Agency for Development Planning) suggested some characteristics of isolated people, namely that they (i) live as nomads or are scattered in small groups; (ii) depend on nature through hunting, fishing, gathering, and swidden farming; (iii) have low health or environmental standards; (iv) have a low standard of housing; (v) have limited knowledge and technology; (vi) have animistic beliefs; and (vii) are strongly tied to their culture and beliefs, which isolate them.<sup>144</sup>

### *Philippines*

The Philippines' indigenous population is estimated at between 10 percent and 20 percent of the national population, which is estimated to stand around 103.1 million people as of 2015.<sup>145</sup> Indigenous peoples in the Philippines have retained much of their traditional, pre-colonial culture, social institutions and livelihood practices.<sup>146</sup> One of these practices includes fishing, which is a central part to their culture, diet and way of life. A major obstacle to their inclusion into the population is that many of them live in geographically isolated areas. These areas lack basic access to social services and have limited opportunities for mainstream economic activities, education or political participation.<sup>147</sup> Currently indigenous people in the Philippines struggle to not only to procure equitable access to resources but also territory rights.<sup>148</sup>

The Philippine Constitution, in recognition of this diversity and under the framework of national unity and development, mandates state recognition, protection, promotion, and fulfillment of the rights of Indigenous Peoples. Further, Republic Act 8371, also known as the "Indigenous Peoples Rights Act"

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<sup>141</sup> Mikkelsen, Cæcilie. "Indigenous Peoples in Indonesia." *Indonesia*. N.p., n.d. Web. 23 Jan. 2017.

<sup>142</sup> *ibid*

<sup>143</sup> *ibid*

<sup>144</sup> Asian Development Bank. Environment and Social Safeguard Division Regional and Sustainable Development. *INDIGENOUS PEOPLES/ETHNIC MINORITIES AND POVERTY REDUCTION INDONESIA*. N.p.: n.p., 2002. Print.

<sup>145</sup> Hansen, Jens Søggaard. "Indigenous Peoples in the Philippines." *Philippines*. N.p., n.d. Web. 23 Jan. 2017.

<sup>146</sup> *ibid*

<sup>147</sup> *ibid*

<sup>148</sup> Capistrano, Robert Charles G. "Reclaiming the Ancestral Waters of Indigenous Peoples in the Philippines: The Tagbanua Experience with Fishing Rights and Indigenous Rights." *Marine Policy* 34.3 (2010): 453-60. Web.

(1997, IPRA), recognized the right of IPs to manage their ancestral domains; it has become the cornerstone of current national policy on IPs.<sup>149</sup>

**Indigenous Peoples Plan (IPP)**

Fish Forever hinges on the engagement of local fishing communities, and empowers the targeted communities to manage their marine resources, while integrating traditional knowledge and governance into the management process. Given that Indigenous Peoples are often disproportionately represented and are among the most marginalized and vulnerable segments of the population, as feasible, the Meloy Fund will aim to increase their access as potential direct borrowers or business partners in Meloy Fund financing, while also ensuring that they are not adversely impacted in the short or long-term by investments made through the Fund (see requirements 1.2.10 and 1.2.11 of the E&S Guidelines). The project will also follow the FPIC standards of engagement by protecting Indigenous Peoples’ rights to self-determination, participation, and decision-making (see requirement 1.2.12 of E&S Guidelines).

The Meloy Fund recognizes that Indigenous Peoples are important stakeholders and supports their rights to manage their coastal resources. Thus, the Fund will consider the different barriers that they might face in participating in relevant fund activities and decision-making meetings. The IPP identifies actions that the Fund will take to avoid adverse impacts and enhance culturally appropriate benefits from Fund-related activities/decisions.

The project will monitor the following indicators throughout the life of the Fund:

- Percentage of indigenous/local communities where FPIC have been followed and documented;
- Percentage of communities where project benefit sharing has been agreed upon through the appropriate community governance mechanisms and documented

Considerations	Actions	Indicators
<p>Will Indigenous Peoples benefit from the investment and/or FIP?</p> <p>Will Indigenous Peoples be adversely impacted from the investment and/or FIP?</p> <p>How will Indigenous People be engaged in project activities?</p> <p>At sites where FIPs are developed, will Indigenous Peoples be engaged in relevant community decisions?</p>	<p>During investee/investment due diligence and/or FIP development process:</p> <ul style="list-style-type: none"> <li>• Assess if the investment and/or FIP will overlap with lands or territories traditionally owned, customarily used or occupied by Indigenous Peoples.</li> <li>• Assess potential impacts on the local community’s food security to ensure adherence with requirement 1.1.6 of the E&amp;S Guidelines.</li> <li>• Asses if Indigenous Peoples have the potential to enjoy benefit (real or perceived) from the investment and/or FIP.</li> <li>• Assess if the livelihoods of Indigenous Peoples may be adversely impacted in the short or long-term by the investment and/or FIP.</li> </ul> <p>If Indigenous Peoples will be adversely affected by an investment/FIP, following the FPIC standards of engagements, specific</p>	<p><u>Indigenous Peoples Indicator 1:</u> Percentage of indigenous/local communities where FPIC have been followed and documented</p> <p><u>Indigenous Peoples Indicator 2:</u> Percentage of communities where project benefit sharing has been agreed upon through the appropriate community governance mechanisms and documented</p>

<sup>149</sup> "Fast Facts: Indigenous Peoples in the Philippines." *UNDP in Philippines*. N.p., n.d. Web. 23 Jan. 2017.

	actions will be needed to be taken to help mitigate any risks and adverse effects.	
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**APPENDIX XI: Co-financing Commitment Letters**



**LETTER OF INTENT REGARDING CO-INVESTMENT IN THE MELOY FUND**  
GEF Project ID #9370

July 12, 2017

Rare Inc.  
1310 N. Courthouse Rd  
Suite 110  
Arlington, VA 22201

To whom it may concern:

Contingent upon receipt from the Meloy Fund's prospective Limited Partners, Rare commits to equity co-investment equal to USD 12,000,000 into the Meloy Fund I, LP.

Due to requests for confidentiality from the Fund's Limited Partners, conditional letters of commitment (totaling USD 10,500,000) have already been shared directly with the GEF Sec. These commitments are contingent upon final legal review of investment documentation, and ongoing due diligence as applicable. All applicable reviews are expected to conclude by Q3 of (calendar year) 2017.

The project development team is in the process of closing additional fund commitments for at least USD 1,500,000 by the final Fund close. Rare hereby commits to covering any potential investment shortfalls such that the Meloy Fund total capitalization is at least USD 18,000,000.

In addition, Rare commits to providing USD 22,899,864 of in-kind co-financing to the project through its Fish Forever initiative and other administrative support.

Sincerely,



Tim Childress  
Chief Financial Officer, Rare

2011 Crystal Drive, Suite 500, Arlington, VA 22202, USA  
Tel: +1 703 341.2400  
Fax: +1 703 553.4817  
www.conservation.org



Dear Mr. Morales,  
Vice-President/GEF Coordinator  
CI-GEF Project Agency  
Conservation International

July 7, 2017

Subject: Co-Financing support for "The Meloy Fund: A fund for sustainable small-scale fisheries in SE Asia".

On behalf of Conservation International, I am pleased to commit \$300,000 of in-kind co-financing to support the GEF Funded Project, "The Meloy Fund: A fund for sustainable small-scale fisheries in SE Asia".

This co-financing will support Component 2 of the project during the period of February 2017 to September 2022.

This contribution as described above is intended to qualify as co-financing should the project proposal be successful.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Morris", with a long, sweeping horizontal line extending to the right.

Jennifer Morris,  
President, Conservation International

## **APPENDIX XII: Best Practices Guide to Impact Investing - A Summary of Current Trends and Practices**

### **Introduction**

Impact investing represents the collective need to provide specific socio-economic or environmental benefits with a goal of helping reduce the negative impacts of business activities. Investments are made into companies, organizations, and funds with the intention to generate a measurable social and environmental impact alongside a financial return ([GIIN](#)).

The term “impact investing” was coined in 2007 through an initiative by the Rockefeller Foundation in the United States and has seen considerable growth since then.<sup>150</sup> In 2015, survey results jointly conducted by JP Morgan and the Global Impact Investing Network (GIIN) of 146 impact investors revealed that the collective size of the investments they were managing totaled USD60 billion, a 23 percent growth from the USD46 billion they managed in 2014 for 125 investors.<sup>151</sup>

Impact investment can help support funding shortfalls and is especially suited to address socio-economic or/and environmental challenges in innovative ways without sacrificing commercial sustainability. It serves to complement and expand the range of viable options that can support sustainable development, drive innovation, and help achieve positive socio-economic and environmental outcomes. With trends supporting the growth of impact investments in emerging markets, there is great potential for investments to channel their way into developing countries as direct investment or international aid. This can help alleviate private sector development challenges, offer investors a pathway to advance social and environmental agendas through investments that are profitable that can also outperform traditional asset classes.

This report seeks to compile relevant impact investing best practices from different sources including:

- Impact Investing Best Practices Guide
- Developing Effective Nonprofit: Association of Fundraising Professionals, Corporate Relationships, Mary Deacon ([link](#))
- Investment Policies for Nonprofits, National Council of Non-profits ([Link](#))
- Handbook on Responsible Investment Across Asset Classes, Boston College ([Link](#))
- Impact Investing and Nonprofits: Opportunities, Innovative Structures, and Creative New Ways to Raise Funds and Further Your Mission ([pdf](#))
- Robert S. Kaplan and Allen S. Grossman, The Emerging Capital Market for Nonprofits, October 2010 ([link](#))
- Issie Lapowski, The Social Entrepreneurship Spectrum: Hybrids ([link](#))
- Council on Non-Profits ([link](#))

### **Best practices in Due Diligence**

Due diligence is vital to the impact investing process once a potential deal has been identified in the preferred sector. There are many iterative refinements within this process, and it brings to attention crucial elements that will guide the investor on the type of commitment involved. This process is highly rigorous and provides the investor the opportunity to closely examine a broad range of variables before

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<sup>150</sup> Organization for Economic Cooperation and Development (OECD). 2015. “Social Impact Investment, Building the Evidence Base.” Paris.

<sup>151</sup> United Nations Development Programme (UNDP). Impact Investment in Africa, "Trends, Constraints and Opportunities." November 2015.

deploying any capital. A few guidelines that will help shape the portfolio drawn from lessons learned are listed below:

- It is important to consider your strengths and weaknesses as an investor, your knowledge of and access to networks, and your personal preferences/investment style.<sup>152</sup>
- Know your risk profile: Familiarize yourself with the difference between real and perceived risk, while building a robust portfolio that meets various income needs, long term blended value creation and impact.<sup>153</sup>
- Evaluate impact risk along with the return potential: Investors also assess opportunities for the risk that the impact intended may not be delivered to the degree expected or that the investment will result in a negative impact. Some investors use the due diligence report to identify risks to impact delivery and rank opportunities against different impact risk considerations to determine an impact risk score. Assess impact return potential and risk and check whether an intervention will displace something of value.<sup>154</sup>
- Where it is possible, estimate likely social returns and compare the performance of the organizations that deliver them. Measurement will help to attract significant capital from a spectrum of investors that seek different combinations of financial and social returns.<sup>155</sup>
- Consider using scorecards to rank opportunities: On top of a rigorous due diligence process for making investments, organizations such as IGNIA leverage development banks' processes. On this added layer of investor requirements, various documents include: (i) an overall checklist; (ii) a template for desk research; (iii) a template for a one-day review and (iv) an exclusion list.<sup>154</sup>
- Verification: Take time to independently verify the information collected during the due diligence process. Much of what investors hear from the investee is self-reported, thus underscoring the need for verification.<sup>152</sup>
- Know the environment of your prospective investment—the cultural, political and regulatory landscape can pose significant risk to your investment, despite a strong leadership team and solid business and impact proposal.<sup>143</sup>
- Perform several field visits to build a relationship with the business before investing.<sup>152</sup>
- Confirm your return expectations, the appropriate type and size of investment based on your analysis of the business opportunity. Choice of return expectations, type and size of capital should be based on a combination of factors relating to the entrepreneur; your investment priorities and; other, and local context.<sup>152</sup>
- Organizing for Success: Due diligence is the first interaction with the entrepreneur, and requires that a basic set of guidelines be put in place to organize interaction between the parties. Identifying a point person who manages interactions with the entrepreneur simplifies communication lines and helps clarify team roles.<sup>152</sup>
- Establish the critical path needed to get to a deal decision: List deal-breakers so no time is wasted. Identifying what information is critical to make a decision and what can go unanswered.<sup>152</sup>

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<sup>152</sup> Toniic Institute. 2013. "Toniic E-Guide 2013: Early Stage Impact Investing." November. pp 4-28.

<sup>153</sup> Emerson, Jed. "An Impact Assets issue brief exploring critical concepts in impact investing." Impact Assets Issue Brief 3.

<sup>154</sup> J.P. Morgan, Impact Assessment in Practice: Experience from leading impact investors. Global Science Finance, May 4, 2015.

<sup>155</sup> Impact, Social, and Investment Taskforce. "Impact investment: The invisible heart of markets." September 2014.

### Best practices in Fund Management Strategies

In defining fund management strategies, the investor considers investment priorities within the construct of the desired theory of change. Within this backdrop, clear targets for social and financial performance are outlined. The strategy also provides a window to the organization's theory of change where targets for social performance are outlined. The fund strategies incorporate investment priorities, impact goals, the available assets, how constraints and risks are managed, management strategies for financial returns and impact, and the investment will be tracked. A few guidelines that will help shape the portfolio drawn from lessons learned are listed below:

- Know what you own: Know your assumptions, investment strategy and processes. Know what level of real liquidity you require in order to meet your needs and then invest accordingly.<sup>153</sup>
- Set investment priorities: Investors must define their outcome, prioritizing between financial or social returns wherein an understanding of the financial impact and returns targets. If you are targeting market-rate returns, you may wish to allocate more of your portfolio to impact investments; conversely, if you are an impact-first investor, you may wish to limit your commitments to a discreet portion of your portfolio in which you are willing to take more risk.<sup>152</sup>
- Take a portfolio approach: Apply an asset allocation strategy to your investment capital, paying attention to liquidity needs, risk, and tax implications. For example, the strategy should factor in the risk associated with early-stage investing which is high-risk.<sup>152</sup>
- Articulate your mission and values: Decide on the industry, impact goals and investment themes taking into account your sector knowledge to determine the investments you want to hold in your portfolio.<sup>152</sup>
- Define the impact and align it with investment themes: Formalize the impact investing policy by defining what measurable impact you are seeking to achieve through your investments. Determine who the ultimate beneficiary of your work is, and what values and characteristics you seek in the entrepreneurs and enterprises you wish to invest in.<sup>152</sup>
- Develop the impact thesis as a tool for screening opportunities: Some investors utilize a single overarching impact thesis for their portfolio; while others operate across several impact theses, with different portfolios for each. For most, the impact thesis serves as the mission towards which the portfolio is driving. Beyond being used as a first screen for opportunities, a theory of change can also help an investor decide between two models of impact within a given sector.<sup>152</sup>
- Select your geographical breadth preference: Putting a manageable boundary around your geographic preferences will allow you to become more comfortable with the landscape, external risks, and regulatory differences of investing in that jurisdiction and develop helpful networks to support you.<sup>152</sup>
- Document impact assessment terms: Investors prefer to keep impact targets out of legal documentation to allow more flexibility for the investee, while others utilize legal documentation of impact goals. Some confirm target outcomes in a side letter with the investee, others draft covenants within the investment documents themselves that are linked directly to impact goals. Investors might also ask investees to become signatories in the UN's Principles for Investors in Inclusive Finance or obtain a GIIRS rating, leveraging third-party tools to help cement investees' commitment.<sup>154</sup>
- Make the link from the theory of change to the relevant metrics upfront: A theory of change is most useful when it can be linked to the specific outputs of the intended investments. Investors make this link upfront, either at the time of articulating their theory of change or when considering investment opportunities.<sup>154</sup>

- Consider whether and how to aggregate impact across a portfolio: Few investors have a system in place for aggregating the impact of a portfolio beyond simply reporting the total number of lives touched or total jobs created.<sup>154</sup>

### Best practices in Investment Structuring

The investment structure sets the tone for the long-term success of the investment. During this stage, the investee provides clarity on the investment options based on relevant laws where capital is deployed. Before closing the deal, the parties must get the terms right and find common ground, confirm return expectations, the size and investment type, and other relevant conditions that will define the investment relationship. A few guidelines that will help shape the portfolio drawn from lessons learned are listed below:

- Consider in more detail which investment structures are best suited for the investee and project. The more varied the vehicles and tools, the more flexible you can be with entrepreneurs.<sup>152</sup>
- Minimum investment required: The specific project and business model determines the investment required along with the relevant market size, maturity and other factors such as human capital or political and commercial risks.<sup>156</sup>
- Return expectations: A recent study by J.P. Morgan reports that market-rate financial returns typically fall in the 8-12 per cent (debt) and 20-25 per cent (equity) range for emerging markets and 5-8 per cent (debt) and 15-20 per cent (equity) range for developed markets. While aggregated data provide little evidence of additional costs, impact investment might result in short term higher-cost transactions compared with traditional investment because of the implementation of rigorous social and environmental reporting requirements and the conduct of extra due diligence processes.<sup>156</sup>
- Use appropriate legal counsel: Most traditional firms providing legal services for term sheets do not understand the impact investing space and therefore their advice and version of term sheets mirror more stringent and onerous conditions found in the venture capital market. Do not let your lawyer take an aggressive equity template off a shelf and apply it to these sorts of deals. Alignment with co-investors is a critical factor as the lessons from failed microfinance deals show that social and financial investors can clash when it's time to negotiate workouts (or possibly even liquidations) of the investee company.<sup>152</sup>
- It's an iterative, dynamic process: Impact assessment process is a live tool that will continue to be refined over time. Some investors maintain a broad impact thesis that allows them to be more opportunistic when reviewing investment opportunities. Others adopt from the beginning a specific impact thesis that narrows their scope and filters opportunities.<sup>154</sup>

### Best practices in Investment Supervision and Portfolio Management

The supervision and management of the portfolio begins after the commitment from the investor. During this phase, interaction between the investor and investee becomes a focal point especially in the early stages. There can be varied activities at this phase depending on the project needs and the relative experience of the investor. A few guidelines that will help shape the portfolio drawn from lessons learned are listed below:

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<sup>156</sup> UNDP. Financial Solutions for Sustainable Development: Impact Investments, accessed September 9, 2016.

- Consider governance roles and needs: The degree of involvement and partnership will also depend on the governance structure of the venture and your level of involvement in it; equity investments, for example, may come with board seats, which require more engagement. Note that if the entrepreneur is inexperienced, he or she may need some coaching about how to best build out a board and then engage it, and on how to prepare information to help the board to give good advice and make smart decisions.<sup>152</sup>
- Provide direct ongoing support: Depending on what governance provisions were outlined in the deal structure, you may be asked to provide ongoing support – however formal or informal—to the entrepreneur. Particularly in the early days, your feedback, advice, and network can be extremely beneficial—as long as it is welcomed from the team.<sup>152</sup>
- Standardize core metrics: overlay individualized metrics for more detail. These metrics can apply across regions or sectors, though, they are usually higher-level or more generic measures.<sup>154</sup>
- Set targets to benchmark performance: Once metrics are selected, some investors and investees will then set numerical targets for what those metrics’ might be in the future. These numerical targets could then be used at a future time to judge whether the outputs had been achieved as planned or not.<sup>154</sup>
- Ensure relevance to the business—use impact data: The most successful impact assessment is typically those that revolve around impact goals that relate back to the business success. Not only does the output information become more useful to the running of the business, but also management at the investee is more aligned to collecting the data because of the value beyond simply reporting back to their investors. Well-designed impact data can be used as a management tool to feed insight gained through the process back into the management of that company.<sup>154</sup>
- Make future allocations based on impact data: Ideally, an impact assessment results in information that informs future allocations and other market engagement strategies.<sup>145</sup>
- Share learnings with investees, make it more than data collection: Many investors engage investees in the process of choosing the metrics by which their impact would be assessed. Further, giving investees access to the results of the assessment can align incentives along over the life of the investment and ensure that the investee sees value in thorough, efficient data collection.<sup>154</sup>
- Share success and help with follow-on funding. At some point, your investee venture may either become profitable on its own, learn that it cannot survive, or go back to the market for more capital. If your venture is doing well, you should be a champion for your investee. Share their success and lessons with other investors, other entrepreneurs, at conferences, etc. Since the capital market ecosystem is young, success can hinge on the level of engagement of investor and resources he brings to the table in these conversations. Active investors need to also work on the follow-on capital opportunities with their networks.<sup>152</sup>

#### *Best practices in measuring Impact Investing success*

A strong set of impact investing indicators can enhance the long-term viability of the fund and help attract new investors. Quantitative as well as qualitative analysis supported by high quality metrics provides a solid foundation to monitor and evaluate impact investing projects that can greatly enhance management capabilities. These metrics are measured in terms of the financial returns along with the social impact desired. A few guidelines that will help shape the portfolio drawn from lessons learned are listed below:

- Impact assessment can be carried out in a qualitative quantitative and/or by the monetization of outcomes (e.g. attaching a value to the benefits for each treated patient as well as to the benefit to the society). It is important to attach a measure of the benefits, such as tangible changes in social outcome indicators or even in pecuniary terms, to impact measurement so that it is possible to understand if the workings of the delivery organization and the investment have a de facto social impact.<sup>150</sup>
- In accurately capturing impact, it is important that these measures do not impose an undue burden on the organizations expected to generate and use them. The goal of measurement is to facilitate greater social impact, not to weigh down those trying to deliver it.<sup>155</sup>
- Use of standardized ratings and reporting of impacts: For instance, the Global Impact Investing Ratings System (GIIRS) rating system uses IRIS metrics in conjunction with additional criteria to come up with an overall company or fund-level rating, as well as targeted sub-ratings in the categories of governance, workers, community, environment, and socially and environmentally focused business models.<sup>155</sup>
- It's not all numbers: The qualitative understanding of the impact on the ground will continue to have a role, just as it does in the ongoing diligence of the financial potential of an opportunity. In the same way that financial metrics represent the state of a company, impact metrics can represent the state of the outcomes.<sup>154</sup>
- Management of Impact Investing funds in Development Financial Institutions (DFIs): With their unique organizational makeup and mission focus of addressing social and environmental impacts, DFIs play the important role of market catalyst especially in emerging markets. The structure of impact investments varies across DFIs, and institutional funds are either managed by an in-house or outside firm using various metrics' and methods to determine the success of the impact investment. A brief description on how these institutions evaluate their impact investments are listed below:
  - How the Asian Development Bank (ADB) measures impact: All projects that are funded undergo two types of evaluations: independent and self-evaluation. Self-evaluations include performance reports, midterm review reports, technical assistance or project/program completion reports and country portfolio reviews. ADB has an Independent Evaluation Department (IED) which is its own process for reviewing policies, strategies, country programs, effectiveness, efficiency, sustainability, and the self-evaluations it receives.<sup>157</sup>
  - How the European Investment Bank (EIB) measures impact: All EIB financed projects must be bankable and comply with strict economic, technical, environmental and social standards. EIB's corps consisting of 300 engineers and economists screens every project, before, during and after lending. EIB has a Results Measurement framework (REM) that assesses the ex-ante results on both loan and equity investments for projects financed outside of the EU (10 percent of portfolio). EIB determines certain key performance indicators (KPIs) at the outset of the project that are monitored throughout the investment until 3 years after the finalization of the project.<sup>157</sup>
  - How the Netherlands Development Finance Company (FMO) measures impact: FMO has a unique approach to environmental and social governance (ESG) management. Every year FMO has its clients and companies fill out a survey of their ESG practices. This survey has developed through the years to be more strategically targeted towards achieving the desired social impact goals of FMO. This process is highly documented through a

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<sup>157</sup> Impact Investing Policy Collaborative (IIPC). Impact Investing in Development Finance. September 2014.

- proprietary monitoring system called Sustrack—a system to monitor E&S action points to compliance. At least 85 percent of all the ESG demands from clients must be met.<sup>157</sup>
- How the Inter-American Development Bank (IDB) Group measures impact: Each of the four IDB Group private sector units incorporates a set of financial and development performance indicators that are tracked during and after a project’s operations.<sup>157</sup>
  - How the International Finance Corporation (IFC) measures impact: IFC utilizes ex-ante evaluations at the beginning of their projects through a ‘sustainability’ or ‘performance based’ framework. These frameworks necessitate that an investee operates with due regard to the environment and the community using the performance Standards on Environmental and Social Sustainability developed by IFC.<sup>157</sup>

#### Best practices for Exiting the Impact Investment Fund

Although there is limited literature available on this topic, exiting the impact investment fund is an essential component as the investor initiates the impact investment. Providing a timeline for the commitment provides more clarity to the investee that sets a temporal guide on which to manage the impact investment fund. With this complete temporal guide, fund managers are able to plan ahead and better manage resources and ensure that the fund can continue to provide the socio-economic and environmental impacts it was designed to provide. A few guidelines that will help shape the portfolio drawn from lessons learned are listed below:

- Consider customers, employees, and investors at exit: When assessing Profit with Purpose performance and potential acquirers at exit, organizations such as LeapFrog uses a rigorous Responsible Exits Framework, which takes into account an acquirer’s: 1) interest in serving low-income customers; 2) commitment to a quality workplace for the company’s employees; and 3) the financial proposition for its investors, as integral elements of the exit process.<sup>154</sup>
- Successful social venture exits can be enhanced by “locking in” mission commitments before exits occur. Companies do this in various ways—some through their by-laws, some by building it into their brand, some by certifying their impact through a product or a companywide certification, or new form of incorporation, such as Benefit corps or L3C’s in the US or Community Interest Companies in the UK.<sup>152</sup>
- Responsible exit: As impact investment portfolios mature across the market, private equity exits in particular are coming into focus. Unless the mission is locked in legally or by a third party impact certification, the alignment of mission and financial goals is tested every time the company raises new money and creates new relationships and has got to be carefully articulated throughout the lifespan of the impact focused enterprise, especially at exit.<sup>154</sup>
- Managing financial targets means that the fund may need to assist the enterprise in identifying the next round of investors and, if and when appropriate, an exit strategy.<sup>152</sup> In addition to setting targets for social and financial performance and managing levels of performance, impact investors must also start with a clear vision—a temporal outline of the investment commitment with the end in mind.
- For equity and equity-like investments, exits can be through merger and acquisition, IPO or management buyout. The most common exit for impact enterprises is a merger or acquisition, especially globally. And the process of engaging and managing suitors is complicated, time-consuming and a key role that an investor can play. Generally, equity exits are scarce but increasing for early-stage impact

### **APPENDIX XIII: Compiled Best Practice Standards to be Adopted by the Meloy Fund**

**Note:** The Meloy Fund is an Impact Investment Fund, not a Trust Fund. Rare commits to applying relevant standards to the management and administration the Meloy Fund, noting that there are key differences between Trust Funds and Impact Investment Funds. Such differences include, but are not limited to the fact that Impact Investment Funds do not manage an endowment, do not make grants, and typically have different roles for stakeholders than Trust Funds.

#### **Practice Standards for Conservation Trust Funds - Conservation Finance Alliance | Practice Standards for Conservation Trust Funds (PSCTF)<sup>158</sup>**

<b>Asset Management Standards</b>	
1.	A clear and comprehensive investment policy sets out the core principles the CTF applies for managing its assets.
2.	A CTF's investment portfolio is managed in accordance with investment guidelines that set out the specific parameters to be applied by the investment management consultant, financial advisor and/or the investment manager(s).
3.	The CTF governing body or its committee responsible for overseeing investment management, invests and manages as a prudent investor would invest his or her own funds.
4.	CTFs seek to preserve endowment capital in order to protect future earnings streams.
5.	The governing body may delegate responsibilities related to investing the CTF's assets to a committee of the governing body or investment professionals, but the governing body itself must review and approve the investment policy, investment guidelines, the process of selecting a financial consultant and/or investment manager(s), and reports on investment and financial consultant and/or asset manager performance.
6.	To appropriately carry out its own responsibilities with regard to investment management, a governing body (i) has at least one director who is a qualified professional with knowledge and experience in one or more of the fields of finance, business or economics and (ii) ensures that all its members receive targeted training on the key concepts required to make informed decisions when it carries out its responsibilities
7.	The CTF assesses its existing investment capacity, identifies what types of investment professionals it may require, and selects these professionals through a competitive process and from among investment industry service providers of recognized quality.
8.	Contracts for services to be provided by investment professionals state in a clear and comprehensive manner the services to be provided, the objectives of the services, the costs of delivering the services, and the responsibilities of both the service provider and the CTF.
9.	A CTF engages in regular reviews of investment management performance.

#### **ILPA Private Equity standards**

<b>Alignment of Interests - Best Practices in Private Equity Partnerships</b>	
1.	Management fees should cover normal operating costs for the firm and its principals and should not be excessive.
2.	All transaction and monitoring fees charged by the general partner should accrue to the benefit of the fund, including off setting management fees and partnership expenses during the life of the fund.
3.	The general partner should have a substantial equity interest in the fund to maintain a strong alignment of interest with the limited partners, and a high percentage of the amount should be in cash as opposed to being contributed

<sup>158</sup> Note: Standards for the two are the same

	through the waiver of the management fee. * Because Rare is a non-profit, Rare will instead cover a portion of the GPs expenses.
4.	Changes in tax law that personally impact members of a general partner should not be passed on to limited partners in the fund.
5.	Fees and carried interest generated by the general partner of a fund should be directed predominantly to the professional staff and expenses related to the success of that fund.

<b>Governance - Best Practices in Private Equity Partnerships</b>	
1.	General Partners should reinforce their duty of care. The “gross negligence, fraud, and willful misconduct” indemnification and exculpation standard should be the floor in terms of what is agreed to by limited partners. Recent efforts by the general partner to (1) reduce all duties to the fullest extent of the law, (2) demand the waiver of broad categories of conflicts of interests and (3) allow it to act in its sole discretion even where a conflict exists should be avoided.
2.	Investments made by the general partner should be consistent with the investment strategy that was described when the fund was raised.
3.	The general partner should recognize the importance of time diversification during the stated investment period as well as industry diversification within the portfolio.
4.	A supermajority in interest of the limited partners should have the ability to elect to dissolve the fund or remove the general partner without cause. A majority in interest of the limited partners should have the ability to elect to effectuate an early termination or suspension of the investment period without cause.
5.	A “key-person” or “for cause” event should result in an automatic suspension of the investment period with an affirmative vote required to reinstate it.
6.	The auditor of a private equity fund should be independent and focused on the best interests of the partnership and its limited partners, rather than the interests of the general partner.
7.	Limited Partner Advisory Committee meeting processes and procedures should be adopted and standardized across the industry to allow this sub-body of the limited partners to effectively serve its role.

<b>Transparency - Best Practices in Private Equity Partnerships</b>	
1.	Fee and carried interest calculations should be transparent and subject to limited partner and independent auditor review and certification.
2.	Detailed valuation and financial information related to the portfolio companies should be made available as requested on a quarterly basis.
3.	Investors in private equity funds should have greater transparency as requested with respect to relevant information pertaining to the general partner.
4.	All proprietary information should be protected from public disclosure.

### **GEF Finance for Biodiversity Conservation Trust Funds: A Checklist**

<b>Factors Important for Establishing a Trust Fund<sup>159</sup></b>	
1.	A legal framework that permits establishing a trust fund, foundation, or similar organization.
2.	People with a common vision—from NGOs, the academic and private sector, and donor agencies—who can work together despite their different approaches to conservation. The support and involvement of business leaders is crucial to bring in private sector management skills, especially skills in financial management.
3.	A basic fabric of legal and financial practices and supporting institutions (including banking, auditing, and contracting) in which people have confidence.
4.	Mechanisms to involve a broad set of stakeholders during the design process, and willingness of stakeholders to use these mechanisms.

<sup>159</sup> From the GEF evaluation report on Experience with Conservation Trust Fund, page 39.

5.	Availability of one or more mentors—a donor agency with good program support, a partnership with an international NGO, “twinning” with another, more experienced trust fund—who can provide both moral and technical support to the fund during the start-up and program implementation phases.
6.	Realistic prospects for attracting a level of capital adequate for the fund to support a significant program while keeping administrative costs to a reasonable percentage. In most cases this means having clear commitments from other donors beyond the GEF, or debt swap mechanisms established, before starting the fund.
7.	An effective demand for the fund’s product

<b>Factors Important for Successful Trust Fund Operations<sup>160</sup></b>	
1.	Clear and measurable goals and objectives. A “learning organization” mentality and environment, oriented toward results and achieving objectives, and flexibility to make adjustments in objectives or approach based on feedback and experience.
2.	A governance structure with appropriate checks and balances, conflict of interest provisions, and succession procedures. “Ownership” of the fund by its board and other governing bodies, indicated by members’ commitment of time, engagement in policy and leadership, and building support of the fund with varied constituencies.
3.	Linkage between the trust fund and the leadership of any national biodiversity strategy or environmental action plan.
4.	Ability to attract dedicated, competent staff, particularly a strong executive director. Harmonious and productive board-staff relationships.
5.	Basic technical and other capabilities that permit the fund to become a respected and independent actor in the community. Access to, and constructive use of, training, mentoring, and technical assistance programs to build capacity.
6.	Constructive relationships with relevant government agencies, with intermediary organizations that provide services to investees, and with other organizations in the community.
7.	Financial/administrative discipline combined with program flexibility and transparency; and procedures that support this and are consistently applied.
8.	Mechanisms for continuing to involve a wide range of stakeholders in the fund’s programs and direction. Enough clear vision and leadership to avoid program fragmentation and being pulled in many directions.
9.	Asset management competitively selected; diversified portfolio of investments; financial expert to provide regular reporting; and oversight by fund boards comparing actual performance to benchmarks.

<sup>160</sup> From the GEF evaluation report on *Experience with Conservation Trust Funds*, page 40.