



GEF-6 PROJECT IDENTIFICATION FORM (PIF)

PROJECT TYPE: FULL SIZED PROJECT

TYPE OF TRUST FUND: GEF TRUST FUND

For more information about GEF, visit TheGEF.org

PART I: PROJECT INFORMATION

Project Title:	(NGI) The Meloy Fund ¹ : A fund for sustainable small-scale fisheries in SE Asia		
Country(ies):	Indonesia, Philippines	GEF Project ID: ²	9370
GEF Agency(ies):	Conservation International	GEF Agency Project ID:	
Other Executing Partner(s):	Rare	Submission Date:	01/11/2016
GEF Focal Area(s):	Biodiversity	Project Duration (Months)	60 months (Project Investment Period) over a 120-month term, plus two optional 12-month extensions
Integrated Approach Pilot	IAP-Cities <input type="checkbox"/> IAP-Commodities <input type="checkbox"/> IAP-Food Security <input type="checkbox"/>		Corporate Program: SGP <input type="checkbox"/>
Name of parent program:	[if applicable]	Agency Fee (\$)	\$540,000

A. INDICATIVE FOCAL AREA STRATEGY FRAMEWORK AND OTHER PROGRAM STRATEGIES³

Objectives/Programs (Focal Areas, Integrated Approach Pilot, Corporate Programs)	Trust Fund	(in \$)	
		GEF Project Financing	Co-financing
BD-3, Program 6: Ridge to Reef+: Maintaining Integrity and Function of Globally Significant Coral Reef Ecosystems	GEFTF	6,000,000	35,199,864
(select) (select) (select)	(select)		
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(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
(select) (select) (select)	(select)		
Total Project Cost		6,000,000	35,199,864

B. INDICATIVE PROJECT DESCRIPTION SUMMARY

Project Components	Financing Type ⁴	Project Outcomes	Project Outputs	Trust Fund	(in \$)	
					GEF Project Financing	Co-financing
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.						
Component 1: The Meloy Fund for Sustainable Small-Scale Fisheries	INV	Outcome 1.1: Area of coral reef ecosystems in Indonesia and the Philippines under sustainable management increased through	Output 1.1.1: Investments in 12-18 ventures in Indonesia and the Philippines that increase the potential earnings of small-scale	GEFTF	6,000,000	12,000,000

¹ Tentative name: Meloy is a Rare Pride panther grouper mascot in the Philippines

² Project ID number will be assigned by GEFSEC and to be entered by Agency in subsequent document submissions.

³ When completing Table A, refer to the excerpts on [GEF 6 Results Frameworks for GETF, LDCF and SCCF](#).

⁴ Financing type can be either investment or technical assistance.

		<p>financial investments that incentivize adoption of sustainable rights-based fisheries management practices that include protection for critical habitats.</p> <p>Target 1.1: 1.2 million ha of coral reef ecosystems⁵ included or targeted for inclusion under community-level rights-based management within 10 years.</p>	<p>fishing communities, thereby incentivizing their transition to and continued practice of sustainable fisheries management in coral reef ecosystems successfully executed.</p> <p>Output 1.1.2: At least USD 8 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 priority coral reef ecosystems.</p> <p>Output 1.1.3: Value per unit effort (VPUE) – Rare’s proprietary measure for improvements in fisher well-being – increased for fishers practicing or transitioning to sustainable fishing as measured by improvements over baseline measures in catch per unit effort (CPUE) and fisher household assets, as a proxy for fisher income.</p> <p>Output 1.1.4: 50,000 hours of mentoring and technical assistance support to portfolio companies’ senior managers in financial and operational management provided to build capacity to scale competitive businesses that source from sustainably managed reef systems.</p>			
Component 2:	TA	Outcome 2.1: Capacity	Output 2.1.1: At least	(select)	0	23,199,864

⁵ “Coral reef ecosystem” refers to areas of seascape that include coral cover and surrounding management areas that directly impact coral health and integrity. Specific areas will be refined during the PPG phase.

Fisheries management and technical assistance through Fish Forever ⁶		and constituency amongst fishers and the private sector to support sustainable fishing practices in coral reef ecosystems strengthened. Target 2.1: 15-20 percentage point change in fishers' behavior in targeted coastal communities that impact priority marine ecosystems within 3 years of Fish Forever implementation. Outcome 2.2: Integrity and functioning of coral reef ecosystems maintained and area increased through the implementation of community rights-based management in Indonesia and the Philippines. Target 2.2.1: Coral cover in the TURF + reserve, both inside and outside the no-take zones, are maintained at or increased over the baseline coverage within 6 years of Fish Forever implementation.	36,000 constituents in coastal communities impacting high-priority marine ecosystems reached by Pride (behavior change) campaigns ⁷ , which build constituencies for sustainable community rights-based fisheries management. Output 2.1.2: Number of TURF and no-take zone regulation violations stabilized or decreased in priority marine ecosystems within 3 years of Fish Forever implementation. Output 2.2.1: Spatial maps that designate on average 20% of the area of TURF + reserves as no-take zones protecting critical habitat produced in at least 30 sites.			
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
Subtotal					6,000,000	35,199,864
Project Management Cost (PMC) ⁸	(select)					
Total Project Cost					6,000,000	35,199,864

⁶ Fish Forever is Rare's global initiative to protect nearshore fisheries and conserve marine ecosystems by pairing Territorial Use Rights for Fishing (TURF) – a type of rights-based management – areas with no-take marine reserves. For more information, see section 1.2.

⁷ 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.

⁸ For GEF Project Financing up to \$2 million, PMC could be up to 10% of the subtotal; above \$2 million, PMC could be up to 5% of the subtotal. PMC should be charged proportionately to focal areas based on focal area project financing amount in Table D below.

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For multi-trust fund projects, provide the total amount of PMC in Table B, and indicate the split of PMC among the different trust funds here: ()

C. INDICATIVE SOURCES OF CO-FINANCING FOR THE PROJECT BY NAME AND BY TYPE, IF AVAILABLE

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Amount (\$)
CSO	Rare (through Fish Forever initiative)	Grants	22,899,864
Other	Grantham Foundation for the Protection of the Environment (Letter of Interest received)	Equity	5,000,000
Other	Encourage Capital (Letter of Interest received)	Equity	2,000,000
Private sector	Impact funds	Equity	1,000,000
Other	Foundation PRIs	Equity	2,000,000
Other	High Net Worth Individuals / Family Offices	Equity	2,000,000
GEF Agency	Conservation International	In Kind	300,000
Total Co-financing			35,199,864

D. INDICATIVE TRUST FUND RESOURCES REQUESTED BY AGENCY(IES), COUNTRY(IES) AND THE PROGRAMMING OF FUNDS ^{a)}

GEF Agency	Trust Fund	Country/ Regional/ Global	Focal Area	Programming of Funds	(in \$)		
					GEF Project Financing (a)	Agency Fee (b) ^{b)}	Total (c)=a+b
CI	GEFTF	Indonesia, Philippines	BD	Non-Grant	6,000,000	540,000	6,540,000
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
Total GEF Resources					6,000,000	540,000	6,540,000

a) Refer to the [Fee Policy for GEF Partner Agencies](#).

E. PROJECT PREPARATION GRANT (PPG)⁹

Is Project Preparation Grant requested? Yes No If no, skip item E.

PPG AMOUNT REQUESTED BY AGENCY(IES), TRUST FUND, COUNTRY(IES) AND THE PROGRAMMING OF FUNDS

Project Preparation Grant amount requested: \$200,000					PPG Agency Fee: 18,000		
GEF Agency	Trust Fund	Country/ Regional/Global	Focal Area	Programming of Funds	(in \$)		
					PPG (a)	Agency Fee ¹⁰ (b)	Total c = a + b
CI	GEFT F	Indonesia, Philippines	BD	Non-Grant	200,000	18,000	218,000

⁹ PPG requested amount is determined by the size of the GEF Project Financing (PF) as follows: Up to \$50k for PF up to \$2m (for MSP); up to \$100k for PF up to \$3m; \$150k for PF up to \$6m; \$200k for PF up to \$10m; and \$300k for PF above \$10m. On an exceptional basis, PPG amount may differ upon detailed discussion and justification with the GEFSEC.

¹⁰ PPG fee percentage follows the percentage of the Agency fee over the GEF Project Financing amount requested.

(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
Total PPG Amount					200,000	18,000	218,000

F. PROJECT'S TARGET CONTRIBUTIONS TO GLOBAL ENVIRONMENTAL BENEFITS¹¹

Provide the expected project targets as appropriate.

Corporate Results	Replenishment Targets	Project Targets
1. Maintain globally significant biodiversity and the ecosystem goods and services that it provides to society	Improved management of landscapes and seascapes covering 300 million hectares	1.2 million <i>Hectares</i>
2. Sustainable land management in production systems (agriculture, rangelands, and forest landscapes)	120 million hectares under sustainable land management	<i>Hectares</i>
3. Promotion of collective management of transboundary water systems and implementation of the full range of policy, legal, and institutional reforms and investments contributing to sustainable use and maintenance of ecosystem services	Water-food-ecosystems security and conjunctive management of surface and groundwater in at least 10 freshwater basins;	<i>Number of freshwater basins</i>
	20% of globally over-exploited fisheries (by volume) moved to more sustainable levels	<i>Percent of fisheries, by volume</i>
4. Support to transformational shifts towards a low-emission and resilient development path	750 million tons of CO _{2e} mitigated (include both direct and indirect)	<i>metric tons</i>
5. Increase in phase-out, disposal and reduction of releases of POPs, ODS, mercury and other chemicals of global concern	Disposal of 80,000 tons of POPs (PCB, obsolete pesticides)	<i>metric tons</i>
	Reduction of 1000 tons of Mercury	<i>metric tons</i>
	Phase-out of 303.44 tons of ODP (HCFC)	<i>ODP tons</i>
6. Enhance capacity of countries to implement MEAs (multilateral environmental agreements) and mainstream into national and sub-national policy, planning financial and legal frameworks	Development and sectoral planning frameworks integrate measurable targets drawn from the MEAs in at least 10 countries	<i>Number of Countries:</i>
	Functional environmental information systems are established to support decision-making in at least 10 countries	<i>Number of Countries:</i>

PART II: PROJECT JUSTIFICATION

1. *Project Description*. Briefly describe: 1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed; 2) the baseline scenario or any associated baseline projects, 3) the proposed alternative scenario, GEF focal area¹² strategies, with a brief description of expected outcomes and components of the project, 4) [incremental/additional cost reasoning](#) and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and [co-financing](#); 5) [global environmental benefits](#) (GEFTF) and/or [adaptation benefits](#) (LDCF/SCCF); and 6) innovation, sustainability and potential for scaling up.

1. Project description

¹¹ Provide those indicator values in this table to the extent applicable to your proposed project. Progress in programming against these targets for the projects per the *Corporate Results Framework* in the [GEF-6 Programming Directions](#), will be aggregated and reported during mid-term and at the conclusion of the replenishment period. There is no need to complete this table for climate adaptation projects financed solely through LDCF and/or SCCF.

¹² For biodiversity projects, in addition to explaining the project's consistency with the biodiversity focal area strategy, objectives and programs, please also describe which [Aichi Target\(s\)](#) the project will directly contribute to achieving.

1.1. The global environmental problems (or climate change adaptation problems if this is an adaptation project), root causes and barriers that need to be addressed:

1. 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,¹³ 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.

Global environmental problems and root causes:

Environmental Problems:

2. 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 corals¹⁴. 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.¹⁵
3. 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 sector¹⁶, and in Indonesia, 60 percent of fishers work in the small-scale sector.¹⁷ 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.¹⁸ These practices take a drastic and sometimes irreversible toll on critically endangered habitats.
4. 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.

¹³ The GEF-6 Biodiversity Strategy. Global Environment Facility.

¹⁴ *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>.

¹⁵ GBO-4, p.77: <https://www.cbd.int/gbo/gbo4/publication/gbo4-en.pdf>

¹⁶ 2002 Census of Agriculture and Fisheries

¹⁷ 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

¹⁸ 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>

5. 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.¹⁹

Indonesia

6. More than 39,500 km² – equal to 16 percent of the world's coral reefs – are located 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.²⁰ The country has the largest reef-associated population in the world, with nearly 60 million people living on the coast within 30 km of a coral reef.²¹ 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,²² 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.²³

Philippines

7. Approximately 22,500 km² – equal to nine 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).²⁴ Almost all of these reefs are threatened by local activities, and two-thirds are rated in the high or very high threat categories.²⁵ The country has more than 40 million people living in coastal areas within 30 km of a coral reef. Many of these people 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 of the 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.²⁶

Root Causes:

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

Social and institutional

9. 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.

¹⁹ Burke L., Selig E., Spalding M., "Reefs at Risk Southeast Asia" World Resources Institute (2002): pg. 8.

²⁰ Burke L., Reyntar K., Spalding M., Perry A. "Reefs at Risk Revisited in the Coral Triangle." World Resources Institute (2012): pg. 26-27.

²¹ *Ibid.*

²² *Ibid.*

²³ *Ibid.*

²⁴ Burke L., Reyntar K., Spalding M., Perry A. "Reefs at Risk Revisited in the Coral Triangle." World Resources Institute (2012): pg. 36.

²⁵ Burke L., Reyntar K., Spalding M., Perry A. "Reefs at Risk Revisited in the Coral Triangle." World Resources Institute (2012): pg. 39.

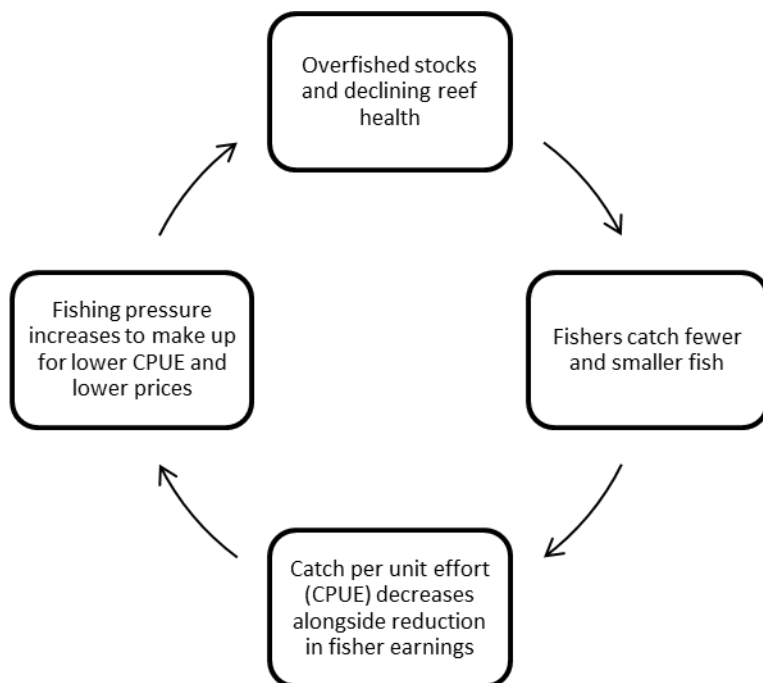
²⁶ Burke L., Reyntar K., Spalding M., Perry A. "Reefs at Risk Revisited in the Coral Triangle." World Resources Institute (2012): pg. 38.

Environmental

10. 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

11. 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.²⁷ 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:



Barriers:

12. 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:

“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.”²⁸

²⁷ Rural Poverty Portal, IFAD: <http://www.ruralpovertyportal.org/>

²⁸ GBO-4, p.13: <https://www.cbd.int/gbo/gbo4/publication/gbo4-en.pdf>

13. 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 small scale fisheries. 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 small-scale fisheries 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 small scale fisheries 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.
- 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 percent²⁹ due to the distance between small-scale fisheries 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.³⁰ 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.³¹ 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.

14. 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

²⁹ 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

³⁰ Marine Change. *Karimunjawa and Kemujan Village Investment Opportunities*. Report to Rare, August 2015.

³¹ 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.

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.

1.2. The baseline scenario and any associated baseline project:

Baseline scenario:

15. Coral reef monitoring between 2004 and 2008 continued to show an overall decline in the condition of coral reefs in Indonesia.³² 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.³³ 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.
16. 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 60 km of the coast, and many of these people rely on coastal resources, especially coral reefs.³⁴ 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.³⁵ Eighty-four percent of Filipino fishers work within municipal waters where critical coral reef habitats and biodiversity are most prevalent.³⁶ Similarly in Indonesia, 60 percent of Indonesia’s fishers are small-scale, and 85 percent of their catch is used for domestic human consumption.³⁷ 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.
17. 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,³⁸ and in the Philippines as much as 75 percent of reefs have been degraded by human activities.³⁹ 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.
18. What is needed is improved management of globally significant coral reef ecosystems. Despite many current and past investments by governments, multilaterals, and private donors (see below), 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.

³² 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>.

³³ Ibid. <http://coralreef.nus.edu.sg/publications/Tun2008GCRMN.pdf>

³⁴ Ibid. <http://coralreef.nus.edu.sg/publications/Tun2008GCRMN.pdf>.

³⁵ Ibid. http://oneocean.org/flash/the_philippine_seas.html.

³⁶ Philippines Census of Agriculture and Fisheries (2002).

³⁷ 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

³⁸ 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.

³⁹ 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

Associated baseline projects:

Philippines

19. 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 15,000 km², the establishment of 1,200 municipal MPAs covering 500 km², and devolution of authority over near shore waters to the municipal governance level.
20. 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).
21. The World Bank's \$500 million investment in the Philippine Rural Development Project also seeks to conserve coastal and marine resources while increasing fishers' (and farmers') income by five percent annually by supporting changes in fisheries planning and implementation practices, as well as financing priority infrastructure and enterprise development projects.
22. 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.
23. 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

24. 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 of effectively managed MPAs by 2020.⁴⁰ 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."⁴¹
25. Indonesia is also the beneficiary of several major investments into marine conservation from other multilateral and private sector actors, including the \$120 million investment by the World Bank and Asian Development Bank 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).

⁴⁰ 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>

⁴¹ 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>.

26. 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 \$35-40 million over the next three years in marine management and conservation.⁴²
27. The work of conservation NGOs, including Rare and Conservation International, 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 Pride⁴³ campaigns that built constituency for MPA compliance and management. Fish Forever, described below, builds on the success of this work.
28. 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

29. 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.
30. By 2023, the program aims to demonstrate productive, sustainable and profitable nearshore fisheries, where:
 - 20 percent of relevant sites⁴⁴ 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 no-take zones.⁴⁵
31. 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.
32. 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 small-scale fisheries. In the 35 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.

⁴² 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.

⁴³ 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.

⁴⁴ 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.

⁴⁵ Research indicates that the reserve should, on average, cover 20% 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.

33. 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.
34. *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 small-scale fisheries, playing a critical role in de-risking investment in under-funded biodiversity areas and paving the way for private capital to lead to scale..*
35. 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 creation of the proposed 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.

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 ⁴⁶	\$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: <ul style="list-style-type: none"> • Boosting livelihoods, • Protecting habitats, • Enhancing coastal resilience to climate change.
Fish Forever (Indonesia)	2014 – 2019 ⁴⁷	\$44 million	Foundations, BMUB, etc.	Demonstrate productive, sustainable and profitable near shore fisheries Technical assistance 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	\$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	\$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:	2015-2017	\$2.4 million (new)	USAID/Philippines; Bloomberg Philanthropies;	The project's goal is to identify and pilot approaches that improve social and economic returns of near shore fisheries

⁴⁶ Information only available for this timeframe, but program will extend beyond 2017.

⁴⁷ Information only available for this timeframe, but program will extend beyond 2019.

Harnessing Markets to Secure a Future for Near Shore Fishers (Philippines)		USAID funding) Additional funding leveraged from existing grants and in-kind.	Pinoy Microenterprise Foundation; Encourage Capital	<p>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>Some of the pilot projects under the GDA could be candidates for financing from the Meloy Fund.</p>
Coral Reef Rehabilitation and Management Program (COREMAP) (Indonesia)	<p>Phase 1: 1998 – 2004</p> <p>Phase 2: 2005 – 2011</p> <p>Phase 3: 2014 - 2019</p>	Phase 3: \$120 million	<p>Asian Development Bank, World Bank (loans)</p> <p>GEF (grant)</p>	<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 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 is providing trainings to the Indonesian government on rights-based fisheries management under COREMAP, which helps strengthen the legal and policy environment.</p>
Coral Triangle Initiative for Coral Reefs, Fisheries and Food Security (CTI-CFF)	2009 - current	>\$1 million per year	USAID, AusAid, GEF, contributions from member countries	<p>There are five goals in the Regional Plan of Action of the CTI-CFF:</p> <ul style="list-style-type: none"> • Goal 1: Priority Seascapes designated and effectively managed • Goal 2: Ecosystem Approach to Management of Fisheries (EAFM) and other marine resources fully applied • Goal 3: Marine Protected Areas (MPAs) established and effectively managed • Goal 4: Climate Change adaptation measures achieved • Goal 5: Threatened species Status improving
Coastal Community Development	2012 - 2017	\$43 million	IFAD loan and grant; co-financed by Spanish Fund	Project goal: reduce poverty and enhance economic growth for poor but active coastal and small island

<p>International Fund for Agricultural Development (CCD-IFAD) (Indonesia)</p>				<p>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"> 1. Community empowerment continues to be a key strategy underlying government development programs and shapes the mode of implementation, and provides the basis for project investment activities to work and interact. 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. 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. 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.
<p>Strengthening the Marine Protected Area System to Conserve Marine Key Biodiversity Areas (Philippines)</p>	<p>2014-2019</p>	<p>\$8 million (GEF)</p> <p>>\$37 million (Co-financing)</p>	<p>GEF (Implementing partner UNDP)</p>	<p>Project Outcome 2: Financial resources available for management of MPAs and MPANs are sufficient to meet all critical management needs (est. at US\$66/ha/yr for MPAs >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 percentage of</p>

				<p>revenue being derived from central government fiscal sources declining to less than 50% by project end.</p> <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.</p>
Philippine Rural Development Program (Philippines)	2014-2021	\$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>

1.3. The proposed alternative scenario with the proposed project, with a brief description of the expected outcomes and components of the project:

36. The Meloy Fund is an \$18M impact investment fund devoted to providing debt and equity capital into scalable enterprises that can play a key role in incentivizing sustainably managed community small-scale fisheries, contributing to the maintained integrity and functioning of coral reef ecosystems in Indonesia and the Philippines. The investments of this fund will be highly leveraged by Rare’s local presence and accumulated technical expertise, and will create strong financial, social and environmental returns for its shareholders, de-risking community fisheries as a viable market for later stage commercial investment.
37. *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.*

Defining Characteristics

38. The Meloy Fund is the first impact fund focused entirely on community small-scale fisheries 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.
39. The Meloy Fund addresses the key market and financial barriers described in section 1.1 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 of coral reef ecosystems are under improved management.

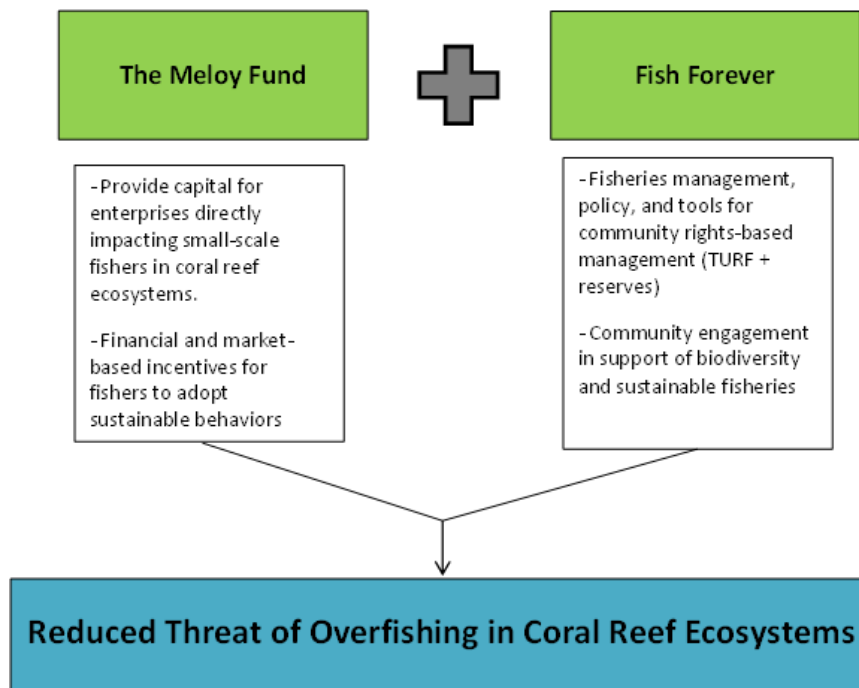
40. The Meloy Fund will also play an important role in de-risking a historically undervalued and underappreciated coastal fisheries sector through a portfolio that is:
 - Multi-local: Small-scale, highly feasible, franchisable and replicable (nationally and globally).
 - Direct in Impact: Directly reduce 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.
41. The Meloy Fund will seek investments whose businesses directly impact coral reef ecosystems of global importance. Through Fish Forever, Rare already works in a number of these areas, including Verde Island Passage and the Siargao Islands Protected Landscape and Seascape in the Philippines, and Wakatobi National Park and South Konawe district in Indonesia. The exact geographies in which the Meloy Fund will work will be further honed during the PPG phase and will be based on the overlay of the criteria above and the presence of globally significant coral reef ecosystems or species.

GEF Focal Area and Aichi Biodiversity Targets Alignment

42. 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.
43. 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 Table B);
 - 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 Table B);
 - Target 10: By maintaining or improving ecosystem health and biodiversity in coral reef ecosystems (linked to Outcome and Target 2.2 in Table B);
 - Target 11: By incentivizing the creation of and compliance with TURF + reserve systems that designate on average 20% of the area to fully protected no-take zones, contributing to the CBD/Aichi goal of 10 percent MPA coverage (linked to Outcome and Target 2.2 in Table B); 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 Table B).

Project Components

44. 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:
- The Meloy Fund for Sustainable Small-Scale Fisheries (USD \$6 million requested from GEF), and
 - Fisheries management and technical assistance through Fish Forever (USD \$0 requested from GEF)
45. The two project components complement each other to ensure that investments made through the Meloy Fund deliver the desired global environmental benefits:



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

Outcomes and targets

46. The Meloy Fund will result in an increase in the area of coral reef ecosystems in Indonesia and the Philippines under sustainable management through financial investments that incentivize the adoption of sustainable rights-based fisheries management practices that include protection for critical habitats 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.

Investment strategies

47. The Meloy Fund has identified three investment frameworks that have both strong commercial promise and the ability to maximize the fund’s social and environmental impact. As depicted in the image above, common to all frameworks is the intent to leverage the investment with fisheries management improvements provided through technical assistance programs like Fish Forever. This approach ensures

the long term financial viability of the fishery as a productive asset – which is critical to the survival of any fishery-dependent small business in which the Meloy Fund would invest – as well as rewards fishers for transitioning to sustainable fishing practices that reduce direct pressures on coral reef ecosystems.

48. Our three investment frameworks are as follows:

- i. Supply Chain Improvements and Integrity: This framework entails investments among one or more players in a given supply chain, from fishing cooperative to retail. In general, we expect a strong fixed asset component to upgrade infrastructure, such as financing equipment for basic processing (e.g. salting, smoking or drying); cold chain storage or transport from the shore to a processing plant; or modernized processing (e.g. deep-freezing, cooking or pre-seasoning, de-boning, and filleting).

This type of investment results in supply chain integrity, mission alignment, improved efficiencies and value added products capable of reaching higher value markets and returning higher profits. Coupled with investment criteria (see below) that selects portfolio companies in part based on their adherence to sustainability guidelines and the impact they have on fishers, these investments incentive fishers in priority coral reef ecosystems to continue practicing or transitioning to sustainable behaviors that reduce pressure on reefs.

- ii. Responsible Seafood Basket: This framework focuses on investing in enterprises and relationships that ultimately enhance the value of in-season, historically under-valued, and sustainably caught local seafood. The Meloy Fund will develop direct market links between the fisher community and end buyers, such as last-mile distributors, retailers, and the hospitality community. The concept of the Responsible Seafood Basket requires a combination of investments, advocacy, and partnerships, many of which are already in development (and in fact will be tested in a co-hosted Sustainable Seafood Week event with top hotel and restaurant brands in Manila this February. Executing the concept of the Responsible Seafood Basket requires a combination of investments, advocacy, and partnerships.

On the investment side, similar to the supply chain strategy, we will identify processing and distribution partners that require additional capital to pursue new markets, namely small scale fisheries, from which they may not have the existing equipment and logistical infrastructure to source. Concurrently, we may co-create or invest in enterprises focused on ensuring the enabling frameworks exist that retailers will require, such as traceability systems, cold chains, or cooperatives that ensure sustainable fisheries management. We will also consider the creation of special purpose vehicles, funded via a project finance model (i.e. on the back of pre-purchase agreements from the hospitality sector), which ensure quality, traceability, and fisher ownership, while also creating efficiencies in the supply chain.

Investments such as these streamline the supply chain and shift brand and consumer perception of desired species and quality, allowing fishers to capture more value from their natural assets. Again, coupled with investment criteria that selects for adherence to sustainability guidelines in sourcing, fishers practicing sustainable techniques that reduce pressure on coral reefs are rewarded and incentivized to continue their efforts.

Lastly, and this is not necessarily an investable proposition (but could be, in the example of an association), we will continue our current work in building alliances and partnerships among brands, including multi-national retailers and hotel developers and managers, to support these efforts with premium pricing and point-of-sale marketing, as well as engaging and exciting top chefs to build demand for new products.

- iii. Fishing Pressure Offset: This framework includes projects that range from small-scale, multi-local mariculture investments, to large-scale aquaculture or fish processing investments that are structured as project finance and may contain significant public-private partnerships. 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 (such as through Fish Forever), and cutting-edge agreements to ensure the fishing community can finance its reduction in fishing pressure through participating in these alternative investments.

Investment criteria

49. The fund will create strong financial, social and environmental returns for fund partners by benchmarking the investment pipeline against the following social and environmental impact criteria:
- The business model of investees should be inextricably linked to the need for sustainable environmental resources. This criterion will ensure that all investees have a business interest in seeing a successful transition to sustainable management of small-scale fisheries.
 - Businesses must comply with or be in transition towards Rare's Fish Forever sustainable fisheries management standards.⁴⁸ This list is comprised of different levels of standards and includes sourcing guidelines in line with practices and regulations commonly required by seafood sustainability certification labels, such as Fair Trade USA and the Marine Stewardship Council. These rules will be included as a covenant in Meloy Fund Investment Agreements, as appropriate.
 - Businesses should have a direct impact on at least 500 fishers, and an indirect impact on up to 5,000 household members. Specifically, the impact on fishers should be related to an increase in Value per Unit Effort (VPUE), which is Rare's measure of a fisher's profits per unit of fishing effort. It is calculated by measuring catch per unit effort (CPUE) and average household assets as a proxy for fisher income. This criterion ensures that the Meloy Fund is strengthening the economic incentives of transition to sustainable practices and helps establish minimum requirements for social returns, without necessarily depending on higher fish catch.
 - Businesses should have a direct impact on at least 30,000 hectares of seascape that includes coral reef ecosystems. This includes coral reef systems of global significance, mangroves or seagrass beds serving as nursery grounds for protected species, and habitats where threatened or endangered fish species are present. This criterion helps establish minimum requirements for environmental returns.

Investment process and structure

50. The Meloy Fund will provide long-term debt and equity investments to promising enterprises operating in the sustainable wild-caught seafood and mariculture sectors. No grants will be provided through the fund. Funds will be deployed to finance the scaling up of these 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. Borrowing entities are expected to include a) fisher cooperatives, b) aggregators and processors, and c) early stage enterprises. The Meloy Fund will also provide need-based Technical Assistance (TA) 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.
51. 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.
52. We acknowledge that there are many barriers facing small businesses in general, and especially in an undercapitalized sector like coastal fisheries. We have identified a number of ways to minimize that risk and ensure success. For this we have three main strategies:
- a) **Formal:** Formal processes for due diligence, investment selection, risk management, conflict resolution and so on will be developed during the PPG phase, based on best-practices from the impact investment

⁴⁸ Derived from the Fish Forever Design Specifications, which outlines the minimum critical specifications of a Fish Forever site.

industry. We plan to hold a variety of convenings over the early months following PIF approval to engage our networks and partners, including leading investment organizations in related fields to gather lessons learned and adapt to our own customized approach.⁴⁹ Once operational, we will adopt a learning framework that ensures we are responding to data points from current investments in a way that informs future selection.

Further, our limited partners will include seasoned investment professionals, such as those who are working or have worked for top investment firms and others. Such partners will continually hold the Meloy Fund to the highest governance and operational standards.

- b) **Informal:** In the countries in which we have chosen to invest, informal networks are as important as formal processes. In particular, they help to ensure credibility, identify the best investment opportunities, ensure compliance with often-obscure legal issues, and protect against corruption. As mentioned in other sections of the PIF (including section 2 on Stakeholders and section 4 on Risks), we will create local advisory boards of corporate and government leaders and scientific experts as one means of tapping into these networks. These local advisory boards will help us assess risk and select the most promising opportunities.
- c) **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.

53. Funding terms assumptions (to *investees*):

- Use of funds: Financing the scaling up of the business, especially the acquisition of fixed assets.
- Investment size: \$500,000 - \$2,000,000.
- Investment tenor: 5-7 years.
- Security: The fund will take first ranking security of relevant investee's assets.⁵⁰
- Seniority: Whenever possible, fund investments will be senior to other investee liabilities.
- Covenants: Investments will be structured such that the fund has the opportunity to influence the company, much as a minority shareholder might (e.g. through a board seat), commensurate with the investment risk. Investments will also include financial as well as social and environmental covenants to ensure alignment with the Meloy Fund goals as well as compliance to agreed upon strategies and terms.
- Interest/Expected returns: Debt will be issued at an average interest rate of 10%.⁵¹ Equity investments will be made with a minimum investment hurdle of 15%. Investments will be issued in USD whenever possible, and when in local currency will be hedged accordingly.
- Grace period and repayment: The fund will structure each loan investment in order 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.

⁴⁹ Specific organizations with which we are in conversation can be provided upon request.

⁵⁰ This security will include those assets purchased with our investment. Security is expected to be hard to value and execute, and loan-asset coverage ratio is expected to be less than one in most cases.

⁵¹ Loan conditions have been determined based on Rare's regional offices' experience and market research.

- Origination fee: Origination fee of 1% of committed capital.
 - Reporting: Investee will provide financial, operational, and social and environmental reports on a quarterly basis. Investee will consent to an annual social and environmental audit.
54. 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.
55. Targeted rates of return are based on an analysis of non-concessionary commercial and 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. Again, a key objective of the Meloy Fund is to address this gap in capital availability so as to be able to attract larger inflows of market-rate capital over time.
56. To align with the capital fund structure, the GEF-SEC concurrence is requested in advance. With this mechanism, identified investments will be submitted to the Investment committee in a short period for quick investment.

Fund structure assumptions

57. The Meloy Fund has the following structural characteristics relevant to *investors*:
- Fund Size: \$18 million USD.
 - 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, as defined in Part I, Project Information).
 - Distributions to fund investors (Dividend Payments): The current financial model assumes one dividend payment at the end of the life of the fund (10 years). However, after the investment period, the fund will consider additional short-term investment opportunities as well as the potential partial distribution of dividends, with the approval of Fund investors.
 - Fees:⁵² As the fund’s General Partner (GP), Rare will receive 2.5% in management fees, including a 1% fee over total fund size and an additional 1.5% fee over committed capital to investees. The GP will be entitled to a refund of up to \$1 million in accrued operating expense (OpEx) losses incurred in fund management.
 - Hurdle rate: 5%.
 - Returns and carry: The Meloy Fund returns will be allocated 80% to limited partners (LPs) and 20% to the GP, with the latter share being paid in a waterfall approach after the preferred return via a 100% catch-up provision (see graphic on following page).
 - Target fund closing date: Within 12 months of GEF approval.
58. The target fund size is \$18 million. The GEF’s proposed financing is \$6 million, and the Meloy Fund will raise \$12 million from co-investors aligned with Rare’s vision of delivering social and environmental, as well as financial returns for investors. The table below details indicative co-investment sources, including a foundation active in conservation finance and philanthropy which communicated to Rare its interest to coinvest up to USD \$5 million in The Meloy Fund (see LoI sent via email for confidentially purpose).

⁵² Subject to negotiation with funders.

59. GEF funds will be committed in parallel with the fund’s co-investors, with all parties entering the investment at the same time. All co-investors are expected to be equity investors in the fund on a pari-passu basis. The fund does not plan to disburse any of its investments as grants.

Indicative Sources of Co-Investment	Type of Financing	Amount (US\$)
Global Environmental Facility (GEF)	Equity	\$6,000,000
Grantham Foundation for the Protection of the Environment (Letter of Interest received)	Equity	\$5,000,000
Encourage Capital (Letter of Interest received)	Equity	\$2,000,000
Impact funds ⁵³	Equity	\$1,000,000
Foundations PRIs ⁵⁴	Equity	\$2,000,000
High Net Worth Individuals / Family Offices	Equity	\$2,000,000
Total Co-Financing		\$18,000,000

60. Rare is confident that it will be able to reach full capitalization of the Meloy Fund and has already started the process of procuring letters of intent from co-investors, including regionally-based individuals and corporations. However, if the fund does not materialize as expected, we will consider the following options:
- Consider other financial mechanisms to support the fund, such as Rare lines of credit, guarantees or similar products.
 - Reduce the scope of the fund, e.g. to one country or by reducing investment strategies.
 - Reduce the size of the fund, with the co-investment leverage and contribution of GEF to be mutually agreed.
 - Consider the possibility for progressive fund capitalization, whereby the fund closes with a smaller amount of capital and then closes a second time as additional funds are raised to meet the full target.
61. Given the fund’s small size and high supervision needs, operating expenses (OpEx) are not expected to break even for Rare as a GP. Rare will support Meloy Fund operations to cover a portion of its OpEx, estimated to be between \$1-\$1.5 million throughout the life of the fund. The fund will accrue GP’s losses up to \$1 million, which will be repaid to the GP after the fund’s 10-year term.⁵⁵ Rare intends to recycle any proceeds to the GP in the form of continuing or new catalytic investments to scale our impact based on lessons learned and opportunities uncovered through the Meloy Fund. Further alignment between the GP and LPs will be ensured as a result of a) the fund’s carry fee; b) joint mission and implementation with Rare’s Fish Forever initiative resulting in strong strategic and operational synergies (see Section 1.6 for more details); and c) Rare Board members serving as LP fund investors.
62. **Note:** Investments by Rare’s board members in the Meloy Fund may imply a potential conflict of interest, which our governance arrangements will need to explicitly manage (and which will be detailed during the PPG phase). In particular, as for any impact fund, we need to be crystal clear about investment selection criteria, and where impact goals contradict financial returns, those tradeoffs can be challenging and conflicting. In particular, when an impact fund is owned by a public benefit charity such as Rare, such challenges are inevitable and need to be addressed up front. As outlined in the above co-investment table, we will also ensure that there is a mix of investors including the GEF, external investors (some potentially regionally based), as well as those with a board affiliation with Rare. It is unlikely that any one entity will have an absolute majority. Further, during the PPG phase, we intend to progress a project (which has already been conceived), to assess best practice structures for non-profit relationships to investment funds, based on the many examples already in existence. Finally, we will apply Conservation Finance Alliance, ILPA, and other well-known fund management standards to ensure we have identified and mitigated conflicts of interest to the greatest extent possible.

⁵³ Conversations in progress with groups such as Encourage Capital, Lundin Foundation, Calvert Foundation, and others

⁵⁴ Conversations in progress with foundations such as Macarthur, Packard, Walton, etc

⁵⁵ GP projected returns available in Annex 2.

Fund return assumptions (to investors)

63. Projected net fund IRR is 5.2% USD. The fund is projected to disburse 12-18 investments in its 10-year lifespan, of which three are estimated to be equity and the rest debt. Given an assumed loan rate of 10%, equity capital gains of 15%, and an average write-off ratio of 6.7%, the gross fund IRR is 10.5% USD.⁵⁶
64. 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: a) LP principal payment (\$18 million); b) GP accrued losses (\$1 million); c) LP returns up to 5% hurdle; d) GP 100% catch-up; and e) remaining returns shared 80/20 by the LP and GP, respectively. This indicative arrangement for financial returns is depicted in the waterfall graph found in Annex 4.

Fund management and organizational structure

65. Rare Inc, a 501 (c)3 registered in Virginia, will have full ownership of an entity serving as the General Partner of the Meloy Fund. The Fund, in turn, will be led by Rare staff members Dale Galvin, Managing Director for Sustainable Markets, and Manuel Bueno, Director for Sustainable Markets, who have a combined 30 years of investment management, business development, and operational experience for startups and multinationals alike in dozens of developing countries around the world. They will seek seasoned fund and investment officers to complement the team (to be based in the fund's target countries of Indonesia and the Philippines). The investment team will be supported by Rare's senior management and Board, including the former vice chairman and global chief investment officer for Fixed Income at BlackRock; and other hedge fund, investment banking, and traditional and alternative investment professionals.
66. We will be supported by vast, experienced networks of co-investors, advisors and partners. For instance, Rare has a new initiative to create an impact investor network, to which luminaries in fund management have already subscribed. The role of this network is, at least in part, to advise Rare during the PPG phase on the most appropriate and efficient set up of the Meloy Fund.
67. We are pursuing alliances among firms and funds, such as Encourage Capital, NatureVest, and others, to participate in fund management and/or operations. For instance, we will almost certainly look to outsource back office operations as long as it is economically justifiable.
68. As an investment fund, ownership of the Meloy Fund will be based on the size of each investor's capital contribution. Of course while there are other financial beneficiaries, namely the general partner or fund management, the physical domicile of incorporation will be chosen to optimize legal and tax considerations, and may be in the U.S. or abroad depending on investor requirements as well as the ability to easily facilitate in-country investments and ensure repayment.

Regardless, in-region capacity building and long-term sustainability of the Meloy Fund are priorities that are unrelated to the physical domicile of incorporation (as compared to a trust fund, where location may play a greater role in the ownership and administration of the fund). The Meloy Fund will build in-region capacity and sustainability through technical assistance provided to investees (e.g. to improve their management and credit), incentivizing fishers to adopt sustainable fishing practices, and de-risking the market to attract further investment.

That said, we will create in-country advisory boards (one each in the Philippines and Indonesia) that will be comprised of government, corporate, and sector-expert representatives, as well as hire and deploy in-country loan officers and fund managers to build local capacity.

⁵⁶ Detailed portfolio projections available in Annex 3.

69. Governance of the fund will be structured and managed in accordance with the ILPA Private Equity standards so that Limited Partners can fulfill their duties as defined in the partnership agreement, as well as provide advice to the General Partner whenever necessary.
70. Rare has reviewed the *Practice Standards for Conservation Trust Funds (PSCTF)* and finds many of the items to be relevant to the Meloy Fund. Rare commits to applying those applicable standards 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 adhere to the ILPA Private Equity standards, which are a well-known and stringent set of guidelines for investment funds. During the PPG phase, Rare will research other best practices and guidelines for impact investing funds published by organizations such as the Global Impact Investing Network (GIIN), the Aspen Network of Development Entrepreneurs (ANDE) or the Rockefeller Foundation.
71. Further, Rare has reviewed the GEF Finance for Biodiversity Conservation Trust Funds: A Checklist and confirms that the Meloy Fund will incorporate the factors articulated to the extent relevant. This includes meeting the minimum co-financing ratio of 1:1 before investing GEF funds. As indicated by the table in paragraph 59 above, the Meloy Fund is targeting a 2:1 co-financing ratio that exceeds the minimum requirement. Rare is highly confident in its ability to secure these funds during the PPG phase.
72. The fund will have two key governance and advisory bodies. The GEF, and/or CI as a representative of the GEF, as anchor investor is assumed to have a seat on one or more of these bodies as deemed appropriate to oversee their investment:
- Limited Partner Advisory Committee (LPAC): The LPAC will be comprised of representatives of the Limited Partners and a GP non-voting observer. The fund will develop an effective LPAC that will enable LPs to fulfill their duties defined in the partnership agreement, as well as to provide advice to the GP as appropriate during the life of the partnership.
 - Board of Directors: The Fund's board will be responsible for overall governance of the fund and will delegate most investment and divestment responsibilities to the Investment Committee. Note that the Investment Committee will be comprised of sector and geographically relevant luminaries in entrepreneurship, investment management, and fisheries markets.
73. The Meloy Fund's organizational structure is currently undergoing refinement in coordination with Rare's legal counsel and can be found in draft form in Annex 5.
74. CI's business and legal due diligence required for this type of investment and the definition of the potential involvement of CI in the governance of the fund will be finalized before the CEO endorsement request.

Outputs

75. In achieving the primary outcome of Component 1, the Meloy Fund anticipates producing the following outputs:
- i. **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.** Deals meeting the investment criteria defined above will ensure that there is a direct link between the fund's investments and the desired impact on globally significant coral reef ecosystems, so that Outcome and Target 1.1 are met.

To achieve this output, the Meloy Fund must develop a stable deal flow. Based on Rare's experience, deal flow tends to be limited in the small-scale fisheries 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 coastal fisheries and their potential. Rare has accumulated deep technical expertise and local networks, which will help 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 will be able to help 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.
- **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.
- **Country advisory board:** The Meloy Fund will develop two country advisory boards to assist with pipeline development, provide advice, help protect against corruption and other risks, as well as support existing investees.

The Meloy Fund will continue to refine its pipeline during the PPG phase and throughout the investment period of the project. Currently, the fund has two strong candidates for investment in its pipeline and is investigating additional leads.

- ii. **At least \$8 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 small-scale fisheries in priority coral reef ecosystems.** The Meloy Fund expects that a substantial portion of its investments will be used to finance fixed assets. Most of these investments will fall into the Supply Chain Improvements and Integrity framework 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.
- iii. **Value per unit effort (VPUE) increased.** As previously described, VPUE is Rare's measure of fisher profits per unit of effort. All of the Meloy Fund's deals should deliver on this metric either by increasing the value of fish products 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.
- iv. **50,000 hours of mentoring and technical assistance support provided to portfolio companies' senior managers in financial and operational management to build capacity to scale competitive businesses that source from sustainably managed reef systems.** 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 individual's needs and could include (but is not limited to) support in corporate governance, financial management, or inventory management.

The purpose of this technical assistance, 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 so as 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.

Component 2: Fisheries management and technical assistance through Fish Forever

Outcomes and targets

76. Through Fish Forever, Component 2 of the project will result in strengthened capacity and constituency amongst fishers and the private sector to support sustainable fishing practices in coral reef areas, and maintained integrity and functioning of coral reef ecosystems and area increased through the implementation of community rights-based management. We expect to see a 15-20 percentage point change in fishers' behavior in targeted coastal communities that impact priority marine ecosystems within three years, as well as maintained or improved coral cover in TURF + reserves both inside and outside of no-take zones within six years.
77. 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 habitat 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.
78. 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.
79. 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.

Outputs

80. In achieving the desired outcomes of Component 2, the project anticipates producing the following outputs:
 - i. **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.** These campaigns will be delivered by local conservation leaders trained by Rare. Rare's past experience in the Philippines and Indonesia demonstrates that Pride campaigns result in statistically significant changes in adoption of target behaviors as compared with baseline measures. Economic incentives and market development through Component 1 will help to ensure these behavior changes are sustained. Specific behaviors targeted for adoption will be decided at the local level and based on local context but could include behaviors

related to respecting spatial zones, compliance with gear restrictions, catch limits, size limits or other regulations designed to reduce the threats of destructive and overfishing.

- ii. **Number of TURF and no-take zone regulation violations stabilized or decreased in priority marine ecosystems.** 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). Violations of regulations related to these elements – including gear restrictions, seasonal closures and respect for the NTZ – are behaviors that must be eliminated in order to protect ecosystem integrity. Stabilizing or decreasing such violations demonstrates improved constituency for sustainable fisheries management.
- iii. **Spatial maps that designate on average 20% of the area of TURF + reserves as no-take zones protecting critical habitat produced in at least 30 sites.** Published scientific studies have demonstrated that an average of 20% of the TURF area should be set aside for recovery as NTZs to ensure sustainability of the system, and that NTZ location is also important to ensuring that key habitat is protected. Area of coral reef ecosystems that maintain or increase integrity will increase through efforts to expand existing and create new, strategically located NTZs in communities implementing Fish Forever.

1.4. Incremental/additional cost reasoning and expected contributions to the baseline :

- 81. 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.
- 82. 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 fishermen. Hence, these fishermen are not the ones rewarded for new behaviors.
- 83. 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.
- 84. 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. 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 small-scale fisheries 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.

1.5. Global environmental benefits:

85. Through the improved conservation and management of 1.2 million hectares of priority coral reef ecosystems, this project is directly linked to delivery of the global environmental benefits that the GEF's biodiversity focal area is designed to achieve, namely:
- The conservation of globally significant biodiversity, including coral reef ecosystems and species; and
 - The sustainable use of the components of globally significant biodiversity, including those found in coral reef ecosystems.
86. 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.⁵⁷ Additionally, an estimated 8 percent of the coral reef fish species in this area are endemic or locally restricted species.⁵⁸
87. The estimated cost of the destruction of 1 km² of coral reef ranges between US\$137,000-1,200,000 over a 25-year period (if counting the economic value of fisheries, tourism, and shoreline protection).⁵⁹ In Southeast Asia, the total economic value of Indonesia's reefs is estimated at US\$1.6 billion annually, and the total economic value of Philippine reefs is estimated at US\$1.1 billion annually.⁶⁰ 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.⁶¹
88. 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.⁶² This project offers the opportunity for GEF to play a catalytic role in the sustainable management of small scale fisheries in one of the most important coral reef ecosystems in the world. Through GEF's incremental support, this project will improve incentives and capacities needed for the sustainable management of small scale fisheries, and will work to shift current unsustainable practices to more sustainable fisheries practices that will generate significant global environmental benefits.

1.6. Innovation, sustainability, and potential for scaling up:

Innovation:

89. As described above, the Meloy Fund uniquely invests in multi-local, scalable approaches that have a direct impact on fishers whose behavior impacts coral reef ecosystems. Our strategies serve to enhance the value of coastal fisheries 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.
90. The Meloy Fund is also expected to generate strong operational synergies across the organization, especially within Rare's Fish Forever Initiative as depicted in the image below:

⁵⁷ Veron *et al.* Unpublished data http://wwf.panda.org/what_we_do/where_we_work/coraltriangle/coraltrianglefacts/

⁵⁸ *Ibid.*

⁵⁹ *Ibid.*

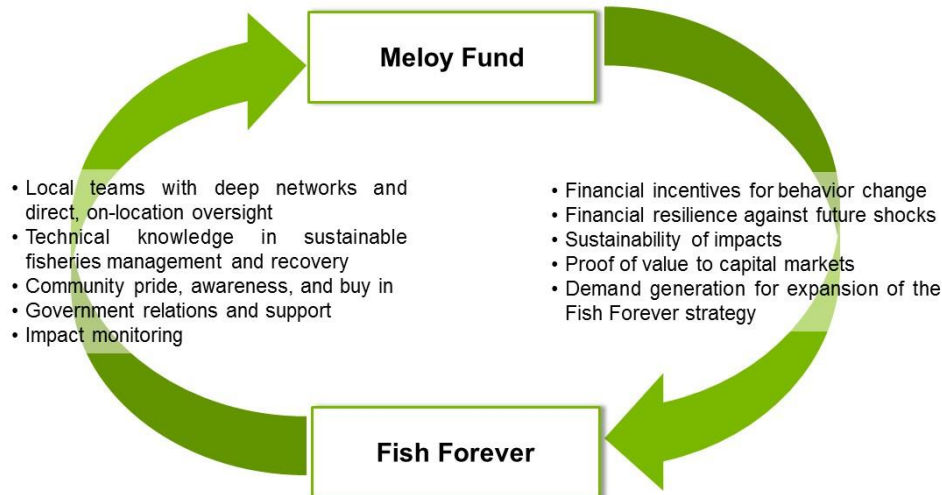
⁶⁰ *Ibid.*

⁶¹ 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

⁶² 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.

The Meloy Fund Bridges the Gap

Managing an in-house fund will strengthen Rare's wider strategy and ensure goals remain aligned. In the longer term, the fund's experience and lessons learned will be able to inform and develop Rare's long term strategy and specific initiatives.



91. 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.

Sustainability:

92. The Meloy Fund, working hand-in-hand with Fish Forever, results in sustainable livelihoods for local fishing communities practicing (or transitioning to) behaviors that reduce human threats to coral reef ecosystems. (See section 1.3 for further explanation on the key relationships between the fund and enabling these outcomes.)
93. 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 coral reef ecosystems will reach far beyond the areas targeted in the proposed projects.
94. 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 Technical Assistance (TA) to investees to cover non-monetary gaps. The 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. The most common 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.

95. 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.
96. 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.
97. 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.

Potential for scaling up:

98. 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.
99. 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.
100. 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.

2. Stakeholders. Will project design include the participation of relevant stakeholders from civil society organizations (yes /no) and indigenous peoples (yes /no)? If yes, identify key stakeholders and briefly describe how they will be engaged in project preparation.

101. The Meloy Fund will work closely with local partners on the ground to develop deal flow, due diligence and supervise its portfolio. The fund will engage a number of relevant stakeholders to ensure coordination and success. These partnerships help both to mitigate risks and also to improve selection of investees, execute due diligence processes, and protect against corruption. We will engage seafood industry experts via our advisory board, as well as other partners (such as universities and governments) to provide additional support to our investees. For instance, as we build high-integrity and well-aligned supply chains, we may partner with local government to apply for funding to build complementary infrastructure, that evens the playing field among those enterprises willing to commit to sustainability. We may also facilitate

purchase agreements and/or create buying alliances (we are already creating these in the Philippines, Hong Kong, and Singapore), which directly create new revenue-generating opportunities for our investees. The table below further outlines how the Meloy Fund will engage with a variety of stakeholders:

Stakeholder	Role	Engagement in the Project
Fisher cooperatives	Investee and business partner	Fisher coops working in community fisheries may be a potential direct borrower or business partner in Meloy Fund financing.
Fish aggregators and processors	Investee and business partner	Aggregators and processors working with community fisheries may be a potential direct borrower or business partner in Meloy Fund financing.
Early stage enterprises	Investee and business partner	Early stage enterprises working with community fisheries may be a potential direct borrower or business partner in Meloy Fund financing.
Last-mile distributors, retailers, hospitality community	Potential buyers	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	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	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	Meloy Fund will work with organizations with a strong environmental focus and local presence, such as Conservation International, 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	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	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	Meloy Fund may explore potential partnerships with like-minded funds to co-invest in the same organizations
Corporate Sector	Project Finance Partners	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	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	<p>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> <p>The project will follow the Free, Prior and Informed Consent (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>

3. *Gender Equality and Women's Empowerment.* Are issues on [gender equality](#) and women's empowerment taken into account? (yes /no). If yes, briefly describe how it will be mainstreamed into project preparation (e.g. gender analysis), taking into account the differences, needs, roles and priorities of women and men.

102. Globally, women represent half of the total working population in the seafood industry, and their roles include activities along the full value chain, both pre- and post-harvest. In the small-scale sector, women are often also involved in management of household finances and managing resources at the community level.⁶³ Moreover, women are largely over-represented within the lowest economic categories,

⁶³ UN Women: Asia and the Pacific. <http://asiapacific.unwomen.org/en/news-and-events/stories/2015/09/women-play-a-crucial-role-in-marine-environments-and-fisheries-economies>

and are generally the most vulnerable to the effects of poverty and climate change. Given that many aspects of social resiliency, especially those related to dependent children, are predicated on benefits accruing to women, the Project will place strong emphasis on the inclusion of women in every aspect of its work.

103. Gender equality is fundamental in any form of development, however particular attention will be paid to this principle in recognition of the vital role of women in coastal fisheries. Both women and men, with their differentiated experiences, needs, priorities and strategies, must be involved as key actors in the design and implementation of interventions aimed at restoring the productivity of community fisheries.
104. The Meloy Fund is committed to mainstreaming gender into project design, implementation, and monitoring and evaluation. The project will incorporate gender assessment tools and approaches in all situational analyses and planning activities to ensure that all partners understand the gender dynamics, and will ensure that women are engaged in all planning and implementation and that all economic and non-economic threats to women are accounted for and mitigated. The project will also work to establish new or strengthen existing women's organizations as a key aspect of building fishing community management capacity, while also promoting equal rights and opportunities for women and men, and ensuring women's representation and involvement in decision-making that affects them and their livelihoods.
105. To ensure that the project meets CI-GEF Project Agency's Gender Mainstreaming Policy, a Gender Mainstreaming Plan (GMP) will be developed during the PPG phase of the project. The aim of the GMP will be to identify needs and opportunities to mitigate potentially adverse effects of the project on men and women, as well as promote gender equality as an aspect of the project.
106. The GMP will include an assessment of gender roles, responsibilities, uses, and needs relating to the environment/natural resources on which the project will be based (e.g., patterns, participation in management, etc.), as well as both short-term and long-term costs and benefits of the project to men and women. It will also include potential roles, benefits, impacts, and risks for women and men of different ages, ethnicities, social structure, and status. Specific actions and activities will be identified to ensure that gender-related adverse impacts of this project are appropriately avoided, minimized, and/or mitigated. The GMP will explicitly describe the actions and processes to be put in place during the PPG and implementation phases in order to ensure that women and men: 1) receive culturally compatible social and economic benefits, 2) do not suffer adverse effects during the development process, and 3) receive full respect for their dignity and human rights. Finally, the GMP will provide specific indicators for monitoring and evaluating progress towards gender equality within the project.
107. The following is a list of examples of project elements that are particularly gender-sensitive and thus potential focal areas for the GMP:

Component 1:

- Based on the results of a gender analysis, target 50% of women as beneficiaries (GEF requirement);
- Training courses are gender sensitive in terms of participation, instructional design, and use of language; and
- Knowledge/ knowledge products generated from the project include gender sensitive language and made equally accessible to men and women

Component 2:

- Strategy scenarios for decision making and negotiations incorporate perspectives from both men and women;
- Training courses are gender sensitive in terms of participation, instructional design, and use of language;
- Community consultative processes are designed to facilitate equal participation, mutual respect, and collective decision making by women and men; and

- The potential project impacts (positive and negative) on both men and women are taken into consideration.

4 Risks. Indicate risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and, if possible, propose measures that address these risks to be further developed during the project design (table format acceptable).

108. The table below summarizes some of the main risks assessed that might hinder the achievement of project objectives, together with strategies to mitigate such risks.

Risk	Level	Mitigation Strategy
<p>Deal sourcing risk: 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.</p>	Medium	<p>As explained in Section 1.3, 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.</p> <p>As of today, the Fund has developed three investment frameworks and has identified two specific investment opportunities.</p>
<p>Currency exchange risk: 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 Companies’ ability to pay and potential returns to the Fund.</p>	High	<p>Both Indonesia and the Philippines currently have fairly strong macroeconomic fundamentals and no major currency swings are expected at least in the short term.</p> <p>The fund investment committee will take into account potential 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.</p>
<p>Investment Risk: 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.</p>	Medium	<p>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 quarterly payments to instill strong repayment discipline and will provide reports on a</p>

		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.
<p>General economic and market conditions: 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.</p> <p>Organized crime and corruption, including extortion and fraud, have become common in the countries in which the Fund may invest. Threats or incidents of crime may cause or force the fund to cease or alter certain activities or liquidate certain investments, which may cause losses or otherwise have a material adverse effect on the fund. Moreover, in certain developing countries in which the Fund may invest, there historically have existed ties between government, agencies or officials and private economic sectors that have resulted in and could in the future result in preferential treatment, inefficient resource allocation, arbitrary decisions and other practices or policies that could have a material and adverse effect on the Fund's investments.</p>	Medium	<p>First, as described in section 1.6 (b) 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.</p> <p>Second, our multi-local approach diversifies risk across geographies and political boundaries, hedging against potential weather events, political changes, microeconomic pressures, etc.</p> <p>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.</p>
<p>Climate change risk: 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 amount of tropical storms, and which are expected to increase in severity due to regional wind patterns and rising sea levels.</p>	Medium	<p>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.</p>

5. *Coordination.* Outline the coordination with other relevant GEF-financed and other initiatives.

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.

109. 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.

Initiative	Brief description of initiative (as relevant to proposed project)	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.

<p>LME-EA Coral Triangle Initiative Project (COREMAPIII-CTI)</p>	<p>Identify and improve management of priority seascapes, including through the application of EAFM and the establishment of MPAs.</p>	<p>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.</p>
<p>4th Operational Phase of the GEF Small Grants Programme (RAF2)</p>	<p>Global environmental benefits in biodiversity and climate change focal areas secured through community-based initiatives and actions.</p>	<p>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.</p>
<p>LME-EA Scaling Up Partnership Investments for Sustainable Development of the Large Marine Ecosystems of East Asia and their Coasts (PROGRAM)</p>	<p>The project seeks to increase sustainably managed seascapes that integrate biodiversity, develop national and local development plans that integrate biodiversity and promote financial sustainability</p>	<p>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>
<p>Capturing Coral Reef and Related Ecosystem Services (CCRES)</p>	<p>To introduce innovation in valuing and conserving coral reef ecosystem services through demonstration pilots and market incentives in East Asia/Pacific.</p>	<p>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.</p>
<p>Establishment and Operation of a Regional System of Fisheries Refugia in the South China Sea and Gulf of Thailand</p>	<p>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 in order to achieve the medium and longer-term goals of the fisheries component of the Strategic Action Programme for the South China Sea</p>	<p>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>

<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: Adabi Fund</p>	<p>Once operational, the Blue Abadi Fund will support the following activities:</p> <ol style="list-style-type: none"> 1. 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: <ol style="list-style-type: none"> a. Enforcement: Community and government patrols of 3.6M ha of MPAs. Each site will be patrolled a minimum of once per week. 	<p>The Meloy Fund will reach out to the 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 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"> - The Meloy Fund is an investment fund, which makes loans and takes equity positions in enterprises which support improved fisheries management and local communities, en route

	<p>b. Monitoring: Community fisheries monitoring, Spawning Aggregation Monitoring (SPAGs), and Resource Use Monitoring.</p> <p>2. The Blue Abadi Fund will support Capacity Development activities for local fishers and government MPA and fisheries managers</p> <p>3. Through a small grants facility, The Blue Abadi Fund will support innovative sustainable fisheries pilot projects led by Papuan organizations.</p> <p>4. The Blue Abadi fund will support fisheries production through the direct protection of 3.6 million hectares of critical marine ecosystems within the BHS MPA network. Within this MPA network, 20-30% has been fully protected as no-take zones to support fisheries replenishment, with the remainder set aside for sustainable use by local fishers only.</p>	<p>to better biodiversity protection.</p> <ul style="list-style-type: none"> - In contrast, the Adabi Fund is a trust fund, which creates an annuity that funds, in perpetuity, marine protected area management. - Further, the Meloy Fund is funded by investors, has a discreet lifecycle, and is managed by investment professionals. - The 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. - Geographically, the Adabi Fund funds activities in the Birdshad Seascape, and the Meloy Fund will consider investments in any region of Indonesia that meets investment criteria. <p>The Meloy Fund will seek to collaborate with the Adabi Fund, wherever relevant, including where there is overlap in geography, fund recipient, or otherwise.</p> <p>We will use the PPG phase to identify the ways in which these two projects can collaborate.</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> <ol style="list-style-type: none"> 1. Promote Global Demand for Sustainable Marine Commodities; 2. Strengthen Enabling Environments for Sustainable Marine Commodities Supply Chains; 3. Demonstrate Sustainable Supply Chains for Marine Commodities; 4. Improve Sustainable Marine 	<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>During the PPG phase we will identify in more details the ways</p>

	Commodities Information and Knowledge Management Systems.	in which these two project can collaborate
LME-EA Philippine Rural Development Program	The Philippine Rural Development Project aims to increase rural incomes and enhance farm and fishery productivity in the targeted areas.	Rare has regular meetings with the implementers of this project to ensure coordination and alignment of approaches, and may be contracted to provide some training. It is possible in the future that investment opportunities might arise from this work.

6. *Consistency with National Priorities.* Is the project consistent with the National strategies and plans or reports and assessments under relevant conventions? (yes /no). If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, etc.

110. 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.

National strategies/plans/reports/assessments	GEF Project Alignment and Contribution
Indonesia: IBSAP 2003-2020⁶⁴	The IBSAP suggests that advancing sustainable fisheries management and effective MPA management will contribute to achieving national targets including: (i) development of 10% 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. 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.
Indonesia: Biodiversity Management Action Plan⁶⁵	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 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

⁶⁴ <https://www.cbd.int/doc/nbsap/2010-and-post-2010-national-targets.pdf>

⁶⁵ Ibid.

	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 developed by the National Economic and Development Authority (NEDA) in accordance with the Philippine Constitution. 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).
National level MOUs	Rare has 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.

7. *Knowledge Management.* Outline the knowledge management approach for the project, including, if any, plans for the project to learn from other relevant projects and initiatives, to assess and document in a user-friendly form, and share these experiences and expertise with relevant stakeholders.

111. 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 markets work as well. Before project inception our communications team and the Meloy Fund will craft a communications strategy that clearly identifies target audiences, key messages, important learnings to be shared, and key milestones to celebrate. The strategy will:

- Identify research and publications that can advance the goals of the fund;
- Map out important meetings, gatherings and events where the work of the fund can be shared;
- Identify key speakers who can share the learning and impacts of the fund;
- Plan for exchanges between borrowers of the funds and fellow entrepreneurs;
- Regular engagements with advisors; and
- Planned documentation of project success and lessons learned beyond donor requirements.

112. 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 exchanges achieve desired learning objectives. Further, Rare will promote the work of the Meloy Fund and Fish Forever through its website, social media channels, print and electronic media. In the case of a particularly impactful deal and with the right opportunity, Rare will also consider promoting the work of the fund and its investees in an international arena, such as at a CBD Conference of the Parties or other biodiversity focused event. To encourage peer-to-peer knowledge sharing, Rare will explore possibilities for convening regular private sector forums or workshops. Investees would have the opportunity to learn from one another and across country boundaries.

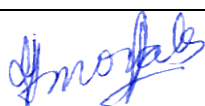
PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)

A. RECORD OF ENDORSEMENT⁶⁶ OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S):
 (Please attach the [Operational Focal Point endorsement letter](#)(s) with this template. For SGP, use this [SGP OFP endorsement letter](#)).

NAME	POSITION	MINISTRY	DATE (MM/dd/yyyy)

B. GEF AGENCY(IES) CERTIFICATION

This request has been prepared in accordance with GEF policies⁶⁷ and procedures and meets the GEF criteria for project identification and preparation under GEF-6.

Agency Coordinator, Agency name	Signature	Date (MM/dd/yyyy)	Project Contact Person	Telephone	Email
Miguel Morales		01/11/2016	Miguel Morales	7033412637	mamorales@conservation.org

C. ADDITIONAL GEF PROJECT AGENCY CERTIFICATION (APPLICABLE ONLY TO NEWLY ACCREDITED GEF PROJECT AGENCIES)

For newly accredited GEF Project Agencies, please download and fill up the required [GEF Project Agency Certification of Ceiling Information Template](#) to be attached as an annex to the PIF.

⁶⁶ For regional and/or global projects in which participating countries are identified, OFP endorsement letters from these countries are required even though there may not be a STAR allocation associated with the project.

⁶⁷ GEF policies encompass all managed trust funds, namely: GEFTF, LDCF, and SCCF

Annex 1: Letters of Intent (confidential letter sent in a separate email)

1. Grantham Foundation for the Protection of the Environment (Letter of Interest received)
2. Encourage Capital (Letter of Interest received)

Annex 2: General Partner (GP) Projected Returns (Indicative)

GP Income Statement (USD '000)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	TOTAL
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Revenues	232	307	373	457	481	452	455	460	466	2,797	6,480
Management Fee	195	246	317	396	450	450	450	450	450	450	3,853
Other fees	37	61	56	62	31	2	5	10	16	22	301
Carry and accrued losses	0	0	0	0	0	0	0	0	0	2,325	2,325
Costs	116	507	624	751	731	701	584	467	233	233	4,946
HQ Expenses	96	233	233	233	233	233	233	233	233	233	2,196
Regional Expenses	20	214	300	397	377	347	260	174	0	0	2,090
Technical Assistance Expenses	0	60	90	120	120	120	90	60	0	0	660
Net Profit / (Loss)	116	(200)	(251)	(293)	(250)	(249)	(129)	(7)	233	2,564	1,533

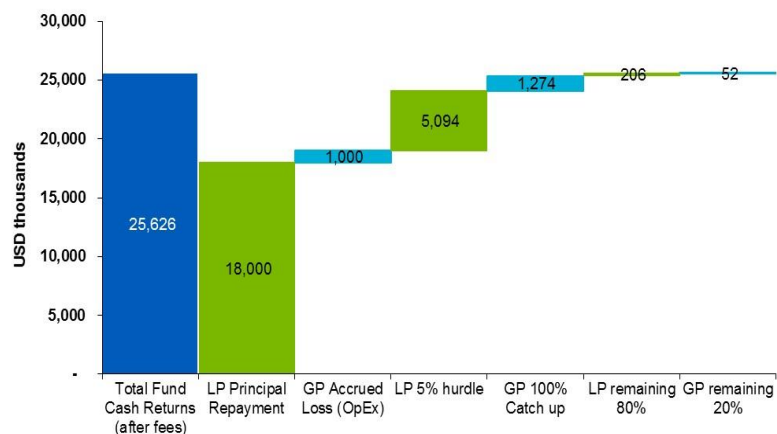
Annex 3: Meloy Fund Portfolio Projections (Indicative)

Fund Projections Overview (USD, '000)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Portfolio Summary											
Beginning Balance	0	0	2,000	6,750	11,500	16,750	18,500	16,500	13,500	8,250	3,750
Disbursements	0	2,000	4,750	4,750	5,750	3,000	0	0	0	0	0
Principal repayments	0	0	0	0	(475)	(1,188)	(1,900)	(2,850)	(4,900)	(4,188)	(3,475)
Write-offs	0	0	0	0	(25)	(63)	(100)	(150)	(350)	(313)	(275)
Ending Balance	0	2,000	6,750	11,500	16,750	18,500	16,500	13,500	8,250	3,750	0
# investments outstanding	0	2	6	10	15	18	16	12	8	3	0
Interest and Capital Gains	0	50	225	500	813	1,106	1,231	1,100	2,881	2,562	2,287
Total Fund Cash Flows	0	1,950	4,525	4,250	4,463	706	(3,131)	(3,950)	(7,781)	(6,749)	(5,762)
Gross IRR											10.5%
Total Investor Cash Flows	0	2,145	4,771	4,567	4,858	1,156	(2,681)	(3,500)	(7,331)	(6,299)	(2,987)
Net IRR											5.2%

Annex 4: Fund Payout Waterfall (Indicative)

Projected Fund Payout Waterfall

The Meloy Fund, as currently proposed, returns funds to shareholders and Rare (the GP) in a waterfall as detailed in the chart below.



Annex 5: Illustrative Meloy Fund Organizational Structure

Meloy Fund Organizational Structure

Organizational structure to be refined in coordination with legal counsel

