



Annual Narrative Progress Report

Reporting Period: 1 January – 31 December 2021

Programme Title & Project Number Programme Title: GFCR Blue Bridge Programme Number: [TBD]	Programme Location Country/ies: Philippines, Global
Recipient Organisation/s <ul style="list-style-type: none">• UNCDF• Blue Finance• Pegasus Capital Advisors	Programme Duration <ul style="list-style-type: none">• Start Date¹: May 2021• End Date: March 2022
Total Approved Budget Total GFCR Budget: USD 1,035,760 UNCDF: \$317,760 (inclusive of \$67,760 in indirect expenses) Blue Finance: \$218,000 Pegasus Capital Advisors: \$500,000	Report Submitted by: Name: Benjamin Midberry Organisation & Title: UNCDF, Investment Specialist Email address: Benjamin.midberry@uncdf.org Phone: 267-240-5843 Name: Brian Friedman Organisation & Title: Pegasus Capital Advisors, Partner & General Counsel Email address: bfriedman@pcalp.com Phone: 203-869-4400 Name: Roland Coulon Organisation & Title: Blue Finance, Finance & Operations Director Email address: rcoulon@blue-finance.org Phone: +33 6 38 04 32 19

¹ The start date is the date of the first transfer of the funds from the MPTF Office as Administrative Agent. Transfer date is available on the [MPTF Office GATEWAY](#)

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Executive Summary

During the reporting period:

- UNCDF proposed and won approval for the GFCR Blue Bridge service, administered grants to Pegasus Capital Advisors (Pegasus or PCA) and Blue Finance (BF) in the Philippines, and provided review and assistance to finalize Priority Ecosystem Programme proposals in the Philippines, PNG, the Bahamas, the Kenya-Tanzania boarder region, and the Mesoamerican Reef region.
- Pegasus submitted a funding proposal to the Green Climate Fund (“**GCF**”) for the Global Fund for Coral Reefs – Investment Window. The funding proposal was approved by the GCF Board in October 2021. Pegasus is currently working with the GCF to finalize the Funded Activity Agreement for the funding proposal and other related agreements for the Equity Fund. At the same time, Pegasus is in the process of onboarding a team to bolster Pegasus’ oceans investing experience. In addition, Pegasus continues to work with the Grant Window to finalize an MOU for the GFCR Collaboration Framework.
- Blue Finance accomplished the following outputs to strengthen the entity ‘Blue Alliance’ Philippines (BA) in charge of the management of 9 Marine Protected Areas (MPAs) (5,200 ha of marine biodiversity) :
 - A strategy to generate sustainable revenue was drafted with local partners and private sector. The strategy details the eco-tourism programmes, the visitor centre masterplan and blue carbon credits with mangrove restoration.
 - Two impact investors and one catalytic donor have been identified with financial arrangements under progress
 - Most of the critical planning documents for the effective management of the MPAs have been produced by local and international stakeholders (annual work plan, organizational chart, enforcement plan, business plan)
 - Critical staff has been recruited and basic initial MPA equipment is under procurement
 - Note that the Philippines has been under strict Covid lock-down for most of the reporting period. Some delays in the implementation have been reduced but not avoided.

I. Purpose

The purpose of the grant to UNCDF was to establish the GFCR Blue Bridge service, provide support to various Priority Ecosystem Programme proposals and deploy grants to Pegasus Capital Advisors and Blue Finance for their work to establish an MPA network in the Philippines.

The grant to PCA was intended to support Pegasus’ efforts in (i) procuring GCF Board approval for the GCF’s commitment to the Equity Fund and (ii) closing on GCF’s commitment to the Equity Fund, which includes, among other things, completion of the GFCR Collaboration Framework.

The grant to BF was intended to achieve the following outputs: Draft the Blue Alliance Philippines annual workplan, develop and agree to the core organizational governance and management of the coalition, as codified in the organizational chart, design the MPAs’ eco-tourism programmes and business plan, as well as equip the MPAs with essential equipment such as patrolling vessels

II. Results & Implementation

A. Outputs & Activities

UNCDF worked with GFCR's global team and the GFCR Executive Board to design the terms and operations of the GFCR Blue Bridge service. Following extensive collaboration from August through November, the GFCR Blue Bridge proposal was submitted to the GFCR Executive Board in November and approved unanimously. The proposal considered the operations and governance of the Blue Bridge, and how UNCDF would interact with GFCR's stakeholders through proposal development, approval, due diligence, disbursement and monitoring of investments. During this time, UNCDF also worked with Convening Agents to review their Priority Ecosystem Programme proposals and provide feedback and guidance focused on project elements designed for financial self-sufficiency and attracting private investment; proposals from the Philippines, PNG, Kenya & Tanzania, the Mesoamerican Reef region and the Bahamas were reviewed and ultimately approved, with associated funding channeled through Blue Bridge awarded in 2021 for deployment in 2022.

Pegasus submitted a first draft of the funding proposal for GCF's anchor commitment to the Equity Fund on May 31, 2021. Multiple iterations of the funding proposal were subsequently exchanged between Pegasus and the GCF to refine the proposal. As part of this review process, Pegasus (with input from Grant Window representatives and SystemIQ) developed, among other things, a logical framework for the Equity Fund, eligibility and exclusion criteria and an indicative budget for the Equity Fund. The eligibility criteria addressed, among other things, reefs that would be targeted for investment, target sectors and target financial return expectations.

At the same time, Pegasus (with assistance from the GFCR UN Global Team, UNDP and SystemIQ) procured 17 non-objection letters ("NOLs") from countries seeking to participate in the Equity Fund, including the Bahamas, Belize, Brazil, Comoros, Ecuador, Fiji, Guatemala, Jamaica, Jordan, Mexico, Mozambique, Panama, the Philippines, Seychelles and Sri Lanka. The process of procuring NOLs is time-consuming and requires significant consultation with the National Designated Authority for the GCF in each country. Pegasus contacted a total of 30 countries for participation in the Equity Fund. In addition to the 17 countries identified above, several additional countries expressed interest in participating in the Equity Fund, but were unable to complete their internal process before the GCF Board meeting. We continue to work with these countries in the hopes of adding them to the programme.

The proposal was ultimately approved by three internal investment committees at GCF and its independent technical assessment panel (iTAP). The final funding proposal was submitted in September 2021 for review at the October 2021 GCF Board meeting. The GCF Board approved the proposal in October 2021.

Subsequent to the GCF Board approval, Pegasus has been working with the GCF Secretariat to finalize the Funded Activity Agreement ("FAA") governing GCF's commitment to the Equity Fund. In addition to finalizing the FAA itself, Pegasus is working with GCF to prepare other documents necessary to consummate GCF's commitment to the Equity Fund, including the Partnership Agreement for the Equity Fund itself and forming the legal entities necessary to establish and operate the Equity Fund. Pegasus is also working with the GFCR UN Global Team to finalize the GFCR Collaboration Framework, which is in the form of an MOU. This MOU is a condition to the FAA becoming effective, and therefore is a closing condition for the Equity Fund.

Blue Finance in the Philippines' achieved results across the Blue Alliance business and financial plan, the eco-tourism programmes, the annual workplan (documentation and execution) & organizational chart, as well as obtaining and deploying patrolling vessels, a vehicle, and basic equipment for the MPA network.

Business plan and financial plan

The business and financial plans have been completed with local partners and in collaboration with impact investors. The project in North Oriental Mindoro (Philippines) provides an attractive

opportunity to invest in a network of 9 Marine Protected Areas (MPAs) with the aim of improving the sustainable use of 5,200 ha of marine biodiversity (incl. 4,500 ha of coral reefs); enhancing livelihoods of 2,400 households and increasing climate change resilience.

The total investment is USD 2.37M with a blend of commercial debt, concessionary debt and grants. Due diligence and term sheets are in progress with GFCR Blue Bridge, UBS Optimus and Mirova Natural Capital. A grant has been signed with IUCN Global EbA Fund.

The investment will fund nature-based tourism initiatives (USD 0.6M), a high-tech visitor center (USD 1.2M), the blue carbon mangrove project (USD 0.2M) and MPA scientific and surveillance equipment (USD 0.37M).

Revenues will be derived from nature-based tourism fees (400,000 visitors in/around the MPAs in 2019), a visitor centre (35,000 visitors per year) and blue carbon credits (up to 170,000 tCO₂e over 20y). Other revenue streams are being explored from mangrove crab aquaculture, seaweed farming and micro-finance partnerships (not included in this investment phase).

The programme will strive to improve coral reef health and community livelihoods by enhancing MPA management capabilities and financial sustainability, while reducing the primary anthropogenic drivers of degradation of coral reef ecosystems.

Eco-tourism programmes designed

The company has drafted its strategy to generate revenues and become progressively independent from grants. The business model is based on generating revenues from improvements to marine biodiversity and ecosystem services. BA will concentrate its initial efforts on 3 primary revenue sources:

- MPA fees paid by divers, snorkelers and day-tour visitors to access the MPA and other under-water attractions (e.g. wreck, events and shows);
- Entrance fees to a high-tech marine life exhibit center (“the Sea Sensorium Center”);
- Sales of blue carbon credits from mangrove conservation (1600 ha) and restoration (85.000 up to 170.000 tCO₂e) over the project period (20 years).

Blue Alliance Annual workplan & organizational chart

The company has now a detailed workplan of activities for community development & engagement, biodiversity conservation & science, sustainable revenues, management & infrastructure, law compliance/park protection.

The human resource strategy is summarized in the organizational chart and is sized to implement the annual workplan. The present BA team of 3 executives, 3 officers and 6 rangers has been working actively with local partners (communities, police, local governments, academics and NGOs). The BA team is expected to grow to a total of 30 local professionals (mainly rangers).

BA local governance is driven by 5 institutions and 7 board members (4 of them are from Blue Finance). Blue Finance maintains direct control over BA in terms of human resources (recruitment and performance evaluation), finance (centralized accounting tools, budgets and strict payment authorization procedures) and MPA performance (regular monitoring of progress, work plans, Key Performance Indicators). In addition, Blue Finance provides clear strategic guidance to BA for the commercial, science, enforcement and community engagement activities. Blue Finance’s Science Director, Commercial Director, Finance & Operations Director, compliance experts and communication officers are in regular contact with the BA executive team.

MPA equipped with patrolling vessel, vehicle, basic equipment

The company has finalized the procurement process for the vehicle. In parallel, BA is assessing precise needs and technical specifications regarding vessels and other MPA equipment. We have

noticed major delays in delivery dates from vehicle and vessel manufacturers due to COVID. The final decision for vessel has been postponed until a field assessment visit by Blue Finance international experts. Borders are expected to re-open in March 2022.

Blue Alliance Annual workplan activities effectively implemented

56 of the 70 activities planned in the workplan Jul.-Dec.2021 have been timely and effectively implemented or with reasonable progress. Activities have covered the following aspects: community development & engagement, biodiversity conservation & science, sustainable revenues, management & infrastructure, law compliance/park protection. Delays in the implementation have affected the following group of activities: large asset purchases, sea sensorium initial preparatory work and scientific monitoring. Delays are due mainly to travel and mass gathering restrictions in Oriental Mindoro preventing face-to-face meeting with local stakeholders during most of the reporting period.

B. Implementation Status

UNCDF

Outputs & Activities	Indicators / Deliverables	Target Completion	Implementation Status & Actual Completion Date
Develop GFCR Blue Bridge Service	Pro Doc submitted to and approved by GFCR Executive Board	December 2021	Completed and approved by November 2021
Administer grant to Blue Finance in the Philippines	Signed grant agreement and disbursement	December 2021	Fully disbursed by November 2021
Administer grant to Pegasus Capital Advisors	Signed grant agreement and disbursement	December 2021	Initial disbursement November 2021; final disbursement due upon fulfillment of final conditions precedent

PCA

Outputs & Activities	Indicators / Deliverables	Target Completion	Implementation Status & Actual Completion Date
Secure GCF Commitment as Anchor Investor to Equity Fund	Submission of first draft of the full funding proposal to the GCF	July 2021	Complete – July 2021
	Financial structuring and business plan	September 2021	Complete – September 2021
	Procurement of non-objection letters	September 2021	Complete – 17 NOLs received. Additional NOLs in process
	GCF Board Approval	October 2021	Complete – October 2021
GFCR Collaboration Framework	Execution of GFCR Collaboration Framework Agreement	November 2021	MOU legally cleared by Pegasus and UNDP legal counsel by end of reporting period. Final signatures expected early April.

Blue Finance in the Philippines

Outputs & Activities	Indicators / Deliverables	Target Completion	Implementation Status & Actual Completion Date
BA Annual workplan	Workplan and Organizational Chart	Completed	Activities completed as expected
BA organizational chart		Completed	
Eco-tourism programmes designed	User fee Marketing plan Sea Safari Marketing plan Communication strategy Market Survey Ecotourism Programme Strategy Business Model	Completed	Activities completed as expected
Blue Alliance business plan		Completed	Travel and mass gathering restrictions in Oriental Mindoro prevented face-to-face meeting with local stakeholders and communities (replaced by visio conferences)
MPA equipped with patrolling vessel, vehicle, basic equipment	Annual Work Plan	New completion date expected in March 2022 (when borders re-open)	Activities in progress with delays from vehicle and vessel manufacturers due to COVID. COVID travel restrictions prevented international visits to finalise technical assessments for vessel specifications.
BA annual workplan activities effectively implemented		Completed	

Recipient Institution KPIs	Baseline	End of Project		Progress at Dec 2021
		Proposed	Min. Target	
# of financiers or other partners that express interest to co-fund the project as a result of UN's project prep grant	0	2	1	3 investors: Mirova Natural Capital UBS Optimus IUCN Global EbA Fund
Amount of investment soft committed (e.g. letter of interest, draft term sheet) as a result of UN's project prep grant (minus UN's own investment)	0	USD 2.2M	USD 0.5M	USD 1M soft committed USD 0.25M committed