



# Indonesia Coral Bond

Review PIF and Make a recommendation

## Basic project information

**GEF ID**

11323

**Countries**

Indonesia

**Project Name**

Indonesia Coral Bond

**Agencies**

World Bank

**Date received by PM**

10/6/2023

**Review completed by PM**

5/3/2024

**Program Manager**

Avril Benchimol Dominguez

**Focal Area**

Biodiversity

**Project Type**

FSP

## GEF-8 PROJECT IDENTIFICATION FORM (PIF) REVIEW SHEET

### 1. General Project Information / Eligibility

a) Does the project meet the criteria for eligibility for GEF funding?

b) Is the General Project Information table correctly populated?

### Secretariat's Comments

#### General comment:

The concept needs additional thought before being ready for GEF investment. It needs to show how it will build on past GEF investments, including the following GEF IW projects that have supported Indonesia on coral restoration and/or MPA management and expansion.

It is also unclear how the proposal is translating the protection of corals via a ?Coral Bond? by using essentially a certification for protected areas. By using the word coral to mean really everything ocean conservation related we would need to include overall increases in biomass within the MPA. Moreover, any indicator will need some baseline for measuring impact so it will be essential to explain what this baseline is.

#### Specific comments

a.) In order to be eligible for GEF funding, we recommend the following revisions:

1.) Please identify and include a metric (or at least a *direct proxy*) of the ecological performance/positive biophysical impact of the MPA for NGI support to this marine nature bond (see question 5.1 on TOC for further detail). 2.) Component 2 ?Implement IUCN Green List certification process? is not eligible as designed given GEF does not finance certification. . Please revise project components to focus on the generation of GEBs (with ecological performance metric as previously stated) and innovative/sustainable financing/resource mobilization aligned with GEF-8 strategy.

b.) Yes.

### [Additional comments 04/02/2024](#)

1.) Well noted. Given the updates/revisions: We recommend that the specific (biophysical) metrics are noted as *provisional at concept stage* and the team will undertake further due diligence and analysis during PAD to confirm the most appropriate biomass-based or other biophysical metric(s). Keep in mind the Rhino bond had an entire predecessor project focused on metric development, so further work is needed during PAD development/PPG to ensure the right indicator(s) (and targets therein e.g. rate of change vs maintenance vs

increase) with sensitivity to the project investments, and over the given timeframe are identified/selected.

2.) Please move Project Management and Monitoring to M&E section provided with outcome and outputs included.

3) Please explain the 5-year project timeframe for performance payout and would it be enough to achieve the environmental benefits? If a longer time horizon/timeframe for performance payout in the context of the biophysical metric(s) was needed. Please explore with TRE how much more outcome payment would be needed for a longer maturity of the Bond. Gianfranco Bertozzi explained in a recent meeting this bond would be a 7 year bond

04/23/2024 Cleared.

Additional comments 05/03/2024:

While there is a LoE, one of the executing partners included (Ministry of Marine Affairs and Fisheries) is not included in Portal ? instead, there is another executing partner in Portal (Indonesia Climate Change Trust Fund) that is not included in LoE. Please ask the Agency to amend accordingly.

## Agency's Comments

Additional comments 5/7/2024

The two executing partners have been changed to the Ministry of Marine Affairs and Fisheries (MMAF) and the Indonesian Environment Fund (IEF) in line with the LOE. The relationship between, MMAF, IEF, and ICCTF has been described both under the Components table as well as the NGI: Justification of Financial Structure section.

Additional comments 4/16/2024

1) Well noted. Thank you. We agree that further work is needed during PAD development to ensure that the right biophysical indicators (with targets) have been selected. We have noted the biophysical metrics as provisional in the concept stage documents.

2) This has been addressed in the portal. We moved M&E subcomponent under M&E section; project management subcomponent under PMC section; and left Capacity Building, Coordination, and Knowledge Management as Component 2 in the main part of the table.

3) The Government of Indonesia is more used to, and comfortable with, a 5-year project cycle. Yet the task team will discuss further with the government during PAD development to assess whether a longer timeframe (e.g. 7 years) would be feasible.

An extension to 7 years would not require an increase in the amount of available outcome payment. The bond structure will include a min. guaranteed coupon [2%] and the existing total outcome payment available will represent the potential added margin over a normal 7 year bond.

The recovery trajectory of fish biomass on reefs under effective management follows a trajectory best fitting asymptotic, logistic or ricker functions (McClanahan et al., 2016). These functions show that biomass recovery is initially relatively steep before shallowing and potentially plateauing after 10 ? 20 years of effective management. This recovery trajectory means that it should be possible to observe significant benefits to the fish community after 5 years. The current trend of fish biomass in the four MPAs does not follow this trajectory, suggesting that fish community recovery is still in its early stages and there is significant recovery potential that could be observed over the project timeframe. Further, the comparison across different levels of protection proposed in the survey methodology will allow us to attribute any changes to the management actions implemented through the Coral Bond.

Against a background of declining coral cover globally coral cover across the Indo-Pacific has remained relatively stable over the previous 20 years (Chan et al., 2023). However, there are a range of acute disturbances that can result in declines in coral cover at local scales, including coral bleaching, localized nutrient influx and destructive fishing practices. In Raja Ampat, waste discharge from liveaboards has been identified as a potential cause of coral loss and in Alor destructive fishing activities are known to take place in the MPA. In these areas implementing more effective management would be expected to result in observable improvements in coral cover over the 5-year period (Fox & Caldwell, 2006). Outside of these areas of localized improvement and in the absence of any further disturbances, coral cover would be expected to remain relatively stable. However, if there is a significant disturbance e.g. coral bleaching, that causes declines in coral cover to the MPA and surrounding area, the 5-year timeframe would be sufficient to observe differences in coral recovery inside vs. outside management areas (Mellin et al., 2016).

3/11/2024

#### How the project builds on past GEF investment:

The Coral Bond project builds upon and complements past GEF investments, to deliver independently verified global environmental benefits in 5.3 million hectares (an area larger than Costa Rica) of some of the most biodiverse marine ecosystems on the planet. Specific examples include:

? **CTI: Coral Reef Rehabilitation and Management Program-Coral Triangle Initiative, Phase III (COREMAP-CTI III)** (GEF ID 5171) established institutional capacity for participative coral reef ecosystem management, including through the establishment of a national standard and accreditation scheme for coral reef ecosystem monitoring in Indonesia and the legal endorsement of POKMASWAS community surveillance groups. The Coral Bond will build on these foundational blocks, integrating them into a management system to deliver biodiversity outcomes. Specific examples may include using the national monitoring standard and accreditation scheme to track the impact metrics (live coral cover and reef fish

biomass) that will trigger the project's outcome payments, and deploying technologies to aid the collection, grading and use of intelligence gathered by POKMASWAS groups.

? **Partnerships for Coral Reef Finance and Insurance in Asia and the Pacific** (GEF ID 10431) will implement biophysical, socio-economic, risk modeling and policy assessments to establish a solid understanding of the financial value of ecosystem services provided by coral reefs in candidate sites located in Derawan, Wakatobi, Rote, Gili Terawangan (in Lombok West Nusa Tenggara), Nusa Lembongan in Bali, 1000 islands in Jakarta (coastal and islands), Mandalika in West Nusa Tenggara (coastal), and Tanjung Puting in Banten (coastal). The Coral Bond project will implement biophysical and socio-economic monitoring, which could assist in extending these ecosystem service valuations to new sites in West Papua and Nusa Tenggara Timor. Furthermore, the Coral Bond project specifically targets improvement in reef health and hence ecosystem service provision, providing a demonstration of how insurance models could accommodate risk mitigation strategies.

? **Eco-system Approach to Fisheries Management (EAFM) in Eastern Indonesia (Fisheries Management Area (FMA)- 715, 717 & 718)** (GEF ID 9129) Component B aims to improve the management of MPAs through a series of well defined activities that include (i) the identification of potential locations and monitoring of Fish Apartments to create artificial habitats that foster marine life and support ecosystem restoration, (ii) training initiatives to enable effective Endangered Threatened Protected (ETP) Species Data Collection, focusing on species such as whale sharks and leatherback turtles; and (iii) knowledge sharing to disseminate effective conservation area management experiences and improve conservation practices and strategies across regions. These objectives have contributed to the EVIKA Gold rating of MPAs in the West Papua region, and hence their selection for the Coral Bond project. The Coral Bond project will accelerate and scale up these initiatives where appropriate to deliver the targeted biodiversity outcomes.

? **Arafura and Timor Seas Ecosystem Action Phase II (Atsea-2)** (GEF ID 6920) aims to improve governance of the Arafura and Timor Seas (ATS) region, including via an ecosystem approach to fisheries management and the design of a regional MPA network. The Coral Bond project will support these objectives by accelerating the effective management and delivery of biodiversity outcomes within two MPAs adjacent to the ATS region: KKN Savu Sea and KKPD Alor.

The added value of the proposed project lies in testing new approaches to close the MPA funding gap and to improve MPA performance in delivering global environmental benefits. These innovations include: i) the mobilization of private capital to finance MPA management; ii) moving from output-focused to outcome-focused management of MPAs; iii) developing a scientifically rigorous and statistically robust monitoring system to demonstrate MPAs' impact on coral reef health; iv) ensuring that the management of MPAs is consistent with global standard of best practices; v) providing third party verification that these global standard (for equitable governance, sound planning, effective management and successful conservation outcomes) have been met.

The Global Environment Facility (GEF)-8 Programming Directions related to "Mobilizing Private Investment for Environmental Goals through the Blended Finance Global Program (Non-Grant Instruments)" recognizes the need to identify and support new "financial instruments linked to environmental performance." This project addresses this need. It will leverage private sector resources for public goods and ensuring that financial returns are tied to tangible, positive outcomes, while passing project implementation risk to capital market investors. Compared to traditional marine conservation funding that are output-focused, this outcome-focused instrument allows donors scarce resources to be optimized because capital is only released for successful activities. By applying the IUCN Green List global standard and tracking MPAs' impact on coral reef health this project will generate the knowledge to inform the effective and efficient allocation of government and development partner resources for MPA, including LAUTRA. The proposed instrument will incentivize increased investment into coral reef conservation by demonstrating the utility of robust metrics (live coral cover and reef fish biomass) in acting as payment triggers and informing outcomes. It will also facilitate mobilization of financial resources for the country's growing MPA network by demonstrating MPAs impacts and enhancing the credibility and international visibility of the government's efforts to protect its unique marine biodiversity.

How the proposal is translating the protection of corals via a "Coral Bond":

The Government of Indonesia has established 201 MPAs encompassing 24.1 million hectares (ha). These MPAs are the main tool used by GoI to reverse the decline of coral reefs. Currently 40 percent of Indonesia's coral reefs are within MPAs. Coral reefs are a priority conservation target for all four select MPAs. Coral reef health indicators will be tracked (see more details below). "Live coral cover and reef fish biomass in select MPAs is maintained or increased" is one of the two PDO level indicators of the project.

The Coral Bond project will measure the protection of corals via two biodiversity outcome indicators: live coral cover and reef fish biomass. The proposed project incorporates IUCN Green List assessment to provide independent verification of biodiversity outcomes. This independent verification is essential step in provide assurance to the private investors financing the bond.

Please identify and include a metric (or at least a direct proxy) of the ecological performance/positive biophysical impact of the MPA:

The IUCN Green List requires clear metrics on the successful delivery of conservation outcomes for nature and people (IUCN Green List Standard Component 4) to be monitored. The ecological performance of the MPAs on coral reef conservation will be assessed by monitoring status and trends in biophysical indicators, including live coral cover and reef fish biomass (as recommended by the International Coral Reef Initiative, the Global Fund for

Coral Reefs, and the Global Coral Reef Monitoring Network). These indicators will be monitored using Underwater Visual Census surveys by trained divers. Additional site-specific biodiversity indicators (e.g., seagrass habitat extent and status, nesting turtle counts, etc.) may be identified and elaborated during project preparation. For all selected biodiversity indicators, measurable baselines, thresholds and limits of acceptable change will be defined, and scientifically rigorous and statistically robust monitoring strategies will be implemented to assess trends over time, and to compare trends inside and outside conservation areas. The proposed coral bond aim to maintain or increase live coral cover and reef fish biomass inside the select MPAs. Stable live coral cover and reef fish biomass is a sign of good coral reef ecosystem health and contrast with the widespread declines in live coral cover and reef fish biomass reported for many of the world's coral reefs (e.g. Jackson et al., 2014; GCRMN 2020; Dietzel et al. 2020) including inside Indonesian MPAs (Campbell et al., 2012; Purwanto et al. 202; Ceccarelli et al., 2022). These declines reduce the capacity of coral reefs to provide essential ecosystem services (Eddy et al., 2021). Understanding the existing baseline for these metrics and monitoring trends over time provides insights into the trajectory of reef conditions and the results of management measures in mitigating impacts and protecting reef health (Flower et al., 2017). Maintaining health live coral cover and reef fish biomass increases a coral reef's resilience to climate change impacts (Duffy et al., 2016). Developing management measures that lead to improved stakeholder engagement in mixed use MPAs, such as the four coral bond sites, has been shown to result in increased reef fish biomass and coral cover (Fidler et al., 2022; Hargreaves-Allen et al., 2017). Outcome payments will be contingent on achieving ecological outcomes (as measure by a change in live coral cover and reef fish biomass in MPAs compared to non protected sites; the quantification of the change to be achieved will be defined during project preparation) and having these independently validated and verified via the IUCN Green List audit process.

The Coral Bond project will apply a standardized methodology within all target sites to assess live coral cover and reef fish biomass, building on BRIN's Reef Health Index. Historical data (>10 years) for these sites was obtained from the government of Indonesia during a recent mission (March 1, 2024) and will be analyzed during project preparation. Historically, different methodologies have been deployed in different MPA sites. Key questions that will be elaborated during project preparation include (i) historical trends and future projections over the project lifespan; (ii) differences between management zones (no-take zones, use zones, outside MPA); (iii) error and confidence limits; and (iv) setting of realistic and justifiable outcome targets.

#### Revision of components:

The Component 2 'Implement IUCN Green List certification process' has been removed. Instead the project main components focus on:

- Component 1. Improve Management Effectiveness of Target MPAs to Deliver Measurable Outcomes
  
- Component 2: Project Management and Monitoring

## **2. Project Summary**

**Does the project summary concisely describe the problem to be addressed, the project objective and the strategies to deliver the GEBs or adaptation benefits and other key expected results?**

#### Secretariat's Comments

- 1) The proposal does not clearly explain and justify why the IUCN green list certification was selected as the best metric to deliver marine conservation outcomes, versus any number of biophysical indicators that could demonstrate a concrete and objective result of the investment. In the case of MPAs there are a host of biophysical metrics that could be considered (increased fish biomass, diversity, abundance etc).
- 2) Based on discussions with GoI we had in Bali earlier this year, our understanding was Indonesia's marine MPA commitment was 30% by 2045, not 2030. While not the most credible source, planning to protect 10% of its seas by 2030, and 30% by 2045. The 2030 target seems to be 30 million hectares of MPA, not 30%. This isn't critical to the goal of what is being proposed, but it does scale back the ambition somewhat.
- 3) Given the level of current and past investment in the selected sites, there needs to be a clear approach and explanation for how the achievement of the metric identified for the bond can be isolated and attributed to this investment.
- 4) Please revise project summary (after revising/redacting component 2), including further description of strategies to be undertaken in Component 3 aimed at improving MPA effectiveness and achievement of biophysical outcomes.

#### Additional comments 04/02/2024

Mostly Cleared.

#### Additional Comment

3)The project summary should include a brief description of the financial structure, including the additional financing of US\$ 5M in the form of an IBRD loan and additional outcome payer BNP Foundation of EUR1 M. The project summary should also mention the involvement of the Indonesia Env'r Fund as fiduciary agent which ensures Country participation.

4/23/24:

The project summary is now too long. As per instructions it should only be 250 words. The details of conservation activities and other arrangements should be in other sections of the document. Please delete figures in the project summary.



4/29/24

- 1- Please delete figures (TOC figure) in the project summary and add to NGI justification since there is no other separate section in the PCN to add it.
- 2- Thank you for reducing the summary length, however in the new version previous comment 3) has been deleted. Please add back to the summary considerations that were highlighted in comment 3) ?*The project summary should include a brief description of the financial structure, including the additional financing of US\$ 5M in the form of an IBRD loan and additional outcome payer BNP Foundation of EUR1 M. The project summary should also mention the involvement of the Indonesia Envr Fund as fiduciary agent which ensures Country participation?.*
- 3- Additional comment: we believe the sentence *BNP Paribas funds that have not been used due to failure of one or more MPAs to attain Green List will be returned to the GEF* is incorrect please consider erasing or editing.

Additional comments 05/03/2024:

2. Gender: The Agency has said on the review sheet that gender will be integrated in the Project Indicative Overview, but we could not find it. Please integrate gender in the Project Indicative Overview.

## Agency's Comments

Additional comments 5/7/2024

Gender has been integrated back into the Project Summary.

5/2/2024

- 1- TOC figure has been deleted from Project Summary and instead included under the NGI justification section.
- 2- The requested text has been put back in and the summary has been further shortened accordingly.
- 3- This sentence has been deleted.

4/25/2024

Thank you. We have shortened the project summary accordingly.

Additional comment 4/16/2024

Thank you; we have added the requested pieces of information in the project summary.

3/11/2024

The proposal does not clearly explain and justify why the IUCN green list certification was selected as the best metric:

The choice of the IUCN Green List as one of the impact metric (together with live coral cover and reef fish biomass, which will trigger the outcome-payment from GEF) offers a scalable results-oriented model for MPA financing. The intricate ecological characteristics of tropical marine ecosystems, and coral reefs, combined with the unpredictability of climate related impacts calls for going beyond the collection of a single, definitive biodiversity metric that can validate the efficacy of conservation funding. The IUCN Green List is a sustainability standard that recognizes effectively managed and governed terrestrial and marine protected and conserved areas that are achieving their conservation outcomes. It allows for verified claims of site effectiveness, based on quantifiable data and independent evaluation of evidence by accredited IUCN evaluators and an independent reviewer. There are four major components (equitable governance, sound design, effective management, and successful conservation outcomes), with 17 further criteria consistent with global standards of best practice that must all be met, and independently verified, in order for a protected area to be accepted to the list. The IUCN Green List is one of the approaches recommended by the Convention of Biological Diversity to track progress in the implementation of the 30X30 target. It provides an assured assessment of performance and expert validation of progress to participating protected and conserved areas, implemented according to the International Social and Environmental Accreditation and Labelling Alliance (ISEAL) codes and principles.

The IUCN Green List requires clear metrics on the successful delivery of conservation outcomes for nature and people (IUCN Green List Standard Component 4) to be monitored. Each site is requested to set clear thresholds for measuring biodiversity and socio-economic outcomes, calibrated to the expected incremental result from management activities. Based on these thresholds for success, a clear evaluation of impact, including status and trends in indicators, is determined, implemented, and independently verified. The IUCN Green List Standard not only supports participating sites to demonstrate successful conservation outcomes, but also to address three enabling areas to achieve sustainable and equitable conservation outcomes. This includes good governance (IUCN Green List Standard Component 1), sound design and planning (IUCN Green List Standard Component 2) and effective management (IUCN Green List Standard Component 3); three critical ingredients for the long term success of MPAs. Scientific evidence show that community involvement

and equitable governance contribute to more effective marine protected areas (Fidler et al., 2022). The good governance component for example requires rights-holders, civil society, and stakeholders to be effectively involved in decision-making and the management of the site, while advancing gender equity. Another example, the sound design component requires that there is a good understanding of the social and economic context and this is reflected in most management goals and objectives. The effective management component requires, among other, that threats are being actively and effectively responded to, so that their impact is not compromising the achievement of the area's goals and objectives.

Given the level of current and past investment in the selected sites, there needs to be a clear approach and explanation for how the achievement of the metric identified for the bond can be isolated and attributed to this investment:

A preliminary IUCN Green List rapid assessment of the four target MPAs was conducted by IUCN in February 2024 and found that these MPAs falling short of global best practice in protected area management as defined in the IUCN Green List Standard. This preliminary study, that used data collected through interviews, group discussions and town halls with stakeholders and area managers, found the four sites scored between 35% and 41% alignment with the Green List criteria. Despite the existing investment, notable gaps were identified by the preliminary assessment that could be addressed by targeted management approaches to be implemented through the Coral Bond project. The target MPAs would need to reach 100 percent alignment to reach IUCN Green List status, which is feasible within the timeframe of the Coral Bond project. Gaps to be filled thanks to the project include: (i) improve stakeholder and rightsholders identification and engagement at each site, including the mapping and development of potential co-management arrangements and the promotion of gender equity and diversity; (ii) improve understanding of the social and economic context, to be reflected in management goals and objectives; (iii) clearly identify biodiversity and socioeconomic targets; (iv) ensuring that major threats, including impacts of climate change, are understood and mitigation activities reflected in management planning and implemented, such as improving management of access to resources and strengthening compliance with resource regulations; (v) enhance monitoring of conservation and socio-economic outcomes; and (vi) ensure that arrangements are in place to deal with financial sustainability. Having target MPAs reach independently verified global standard of best practices in equitable governance, sound planning, effective management and successful conservation outcomes contrasts with the fact that most MPAs, including in Indonesia, are not implemented properly and fail to reach their conservation goals.

In addition, the project will aim to maintain or increase live coral cover and reef fish biomass inside select MPAs. This contrasts with the widespread declines in live coral cover and reef fish biomass reported for many of the world's coral reefs, including inside Indonesian MPAs.

Please revise project summary (after revising/redacting component 2), including further description of strategies to be undertaken in Component 3 aimed at improving MPA effectiveness and achievement of biophysical outcomes.

Thank you. We have revised the project summary.

The project will address deficiencies identified during an IUCN Green List pre-assessment mission conducted in February 2024, with an emphasis on:

? **Strengthening stakeholder participation in management** (Criterion 1.1), including by improving the identification and facilitation of minority, vulnerable and marginalized groups, and strengthening the compilation and use of stakeholder reports and intelligence in monitoring and surveillance.

? **Improving threat identification and mitigation** (Criterion 2.1), including risk assessment and prioritization, and the implementation of threat mitigation strategies.

? **Monitoring for biodiversity outcomes** (Criterion 4.1), including implementation of standardized monitoring protocols and a scientifically rigorous sampling design.

Specific activities will be elaborated during project preparation to ensure they are appropriate for the targeted outcome triggers. However, these activities are likely to include:

? Technical assistance to undertake comprehensive stakeholder mapping (including identification of minority, marginalized and vulnerable groups) and to develop inclusive stakeholder engagement and participation strategies;

? Incremental operating costs associated with implementing stakeholder outreach, engagement and participation strategies, including routine operation of MPA Collaborative Forums and other participative management vehicles;

? Technical assistance to undertake comprehensive threat mapping, risk assessment and prioritization, and to design threat mitigation strategies;

? Operational support for the implementation of threat mitigation strategies;

? Technical assistance for routine biophysical monitoring of outcome targets.

Threat mitigation strategies are likely to prioritize (i) overfishing and destructive fishing; (ii) zone compliance; and (iii) visitor impact management.

Key approaches to address these threats will include the deployment of technology to enhance information and intelligence gathering and inform the efficient deployment of management

resources, and the setting of threshold indicators and limits of acceptable change. While detailed mitigation activities will be further identified and elaborated during project preparation and the threat mapping and risk assessments carried out by the project, these are likely to include: (i) deployment of technologies such as hydrophones to improve the detection and monitoring of bomb fishing; (ii) improving the detection and monitoring of zone violations using platforms such as SMART Conservation Tools to enhance the compilation, analysis and value of intelligence gathered from stakeholder groups such as POKMASWAS; (iii) the implementation of strategic (intelligence-led and risk-based) rather than reactive MPA surveillance and monitoring patrols and cross-agency coordination to deter and prevent destructive fishing and deter and prevent zone noncompliance;(iv) supporting small-scale producers to apply for and comply with appropriate licences and permits; (v) establishing baseline conditions and limits of acceptable change for visitor sites; (vi) defining threshold measures and management responses such as adjusting visitor flow and numbers; and (vii) strengthening provisions to mitigate visitor impacts including via the implement of codes of conducts, anchoring restrictions and wastewater management provisions.

### 3 Indicative Project Overview

**3.1 a) Is the project objective presented as a concise statement and clear?**

**b) Are the components, outcomes and outputs sound, appropriate and sufficiently clear to achieve the project objective and the core indicators per the stated Theory of Change?**

#### Secretariat's Comments

a.) Yes

b.) Per the feedback on the metric and Component 2, please revise/rework the components, outcomes and outputs accordingly. GEF Sec view is that the Green List is an aggregate metric, and not even a direct proxy and not a strong predictor of ecological outcomes. The TOC will therefore need to include a direct biophysical measurement on top of the Green List certification. We know from the research and studies in the literature that what explains/indicates positive ecological performance of MPAs includes fish biomass and other direct measures (e.g. inside/outside baseline vs treatment)

Components/outputs/outcomes need to be framed in a similar way as was the TOC of the Rhino Bond. Please consult PID and PAD of that transaction.

If Component 4 is M&E it should be titled and described as such.

**[Additional comments 04/02/2024](#)**

a.) and b.) Yes. Cleared. Please note comment above: We recommend that the specific (biophysical) metrics are noted as *provisional at concept stage* and the team will undertake further due diligence and analysis during PAD development/ to confirm the most appropriate biomass-based or other biophysical metric(s).

c) Most of the activities so far seem mostly for admin, meetings and outreach. Project components need to include all the conservation activities on the ground ? so far the PIF and PCN has a list that would need to be finalized during PAD development to fully establish conservation activities that (i) are additional to EVIKA and (ii) ensure GEBs generation. These components should be reflected in the TOC.

d) IEF is briefly mentioned in this section. The project document would need to further elaborate on the role of IEF as fiduciary agent and coordination with WBG operations.

#### Additional Comments 4/23/24:

1. The project Components in the PCN and in the PIF are not the same; the PIF should reflect the components of the PCN and should take into consideration same financing figures (for example Component 2 in the PCN has both IBRD loan financing and foregone coupons), please address for consistency. PCN has now deleted a Knowledge Management Component that is nevertheless required in all GEF projects. Please assess and address.

2. Project components are redundant. Please merge same components into one. Under one component, if the agency wants to address different co-financing source will have different activities, please describe them under outcome and output with parentheses (eg. specifying Conservation Success Payment amount and success payment KPIs from the GEF and BNPP). Some components are missing outputs and outcomes.

#### Additional Comments 4/29/24

1. Please fill in the output under conservation success payment component.

2. There is a huge gap between subcomponent under component 2 ? please revise. We are not sure if this is formatting or else, there was content that was supposed to be here for Outputs and Outcomes.

#### Agency's Comments

5/2/2024

1. Outcomes and outputs have been added for the conservation success payment component.

2. This has been edited as requested. Outcomes and outputs have been added for each subcomponent under Component 2. Please note subcomponent 2.2. Monitoring and

Evaluation has a dedicated section in the portal, so the outcome and outputs for this subcomponent have been added there.

#### Additional comments 4/25/2024

1. The Project Components as well as their financing figures in the PCN and PIF have been aligned. Kindly refer to Paragraph 32 in the PCN for the Knowledge Management Component.

2. Components have been merged. The GEF and BNPP activities have been delineated under Conservation Success Payment.

#### Additional comments 4/16/2024

a.) and b.) Well noted. Thank you. We agree that further work is needed during PAD development to ensure that the right biophysical indicators (with targets) have been selected. We have noted the biophysical metrics as provisional in the concept stage documents.

c) Activities proposed under Component 1 include conservation activities on the ground such as: (v) deployment of technologies such as hydrophones to improve the detection and monitoring of bomb fishing; (vi) improving the detection and monitoring of zone violations using platforms such as SMART Conservation Tools to enhance the compilation, analysis and value of intelligence gathered from stakeholder groups such as POKMASWAS; (vii) implementation of strategic (intelligence-led and risk-based) rather than reactive MPA surveillance and monitoring patrols and cross-agency coordination to deter and prevent destructive fishing and deter and prevent zone noncompliance; (x) defining threshold measures and management responses such as adjusting visitor flow and numbers; and (xi) strengthening provisions to mitigate visitor impacts including via the implement of codes of conducts, anchoring restrictions and wastewater management provisions; (xii) development and implementation of scientifically rigorous and statistically robust monitoring of MPAs conservation and socio-economic outcomes.?

Yet, we agree that the list of proposed activities would need to be refined during PAD development to fully establish conservation activities that (i) are additional to EVIKA and (ii) ensure GEBs generation. The changes will be reflected in the revised TOC in the PAD.

d) Thank you. We have included the text below in the portal both under the Indicative Project Overview section as well as the NGI: Justification of Financial Structure:

The Indonesian Environment Fund (IEF) is an agency mandated to channel and distribute environmental and climate funds to support Indonesia's sustainability targets. IEF was

established in 2019 is registered as a national Public Service Agency, with its own legal status and supporting structures including staffing and policy. The agency is institutionally accountable to and structurally operationalized under the Ministry of Finance mainly to mobilize funds from several sources (including multilateral and bilateral donors, development finance institutions and Indonesia's own budget) to finance interventions (programs or projects) that address Indonesia's climate change crisis, address environmental degradation and to meet Indonesia's SDGs targets. The IEF will serve as the Fiduciary agency to distribute investor coupon payments for the financing of activities to improve conservation outcome of the MPAs. As the lead implementing agency of the project, IEF will be responsible for overall project coordination, day-to-day management, budgeting, financial management, safeguards monitoring, project progress monitoring, evaluation and reporting, and coordination with other government agencies. IEF is experienced in implementing World Bank-financed operations and is familiar with the World Bank's fiduciary requirements. The projects include Mangrove for Coastal Resilience project (P178009; USD 400 million IBRD loan + USD 19 Multi-donor grant), Indonesia Disaster Risk Finance & Insurance (P173249), and East Kalimantan Project for ER result/FCPF (P166244). As a growing institution, the IEF currently receives a technical assistance (TA) from the World Bank (2020 - 2024) supported by a USD 2.1 million recipient executed grant to strengthen its operational capacity, institutional structure, fiduciary arrangements, communications, M&E and management information systems. The TA also facilitates south-south knowledge exchange with similar Funds and provides hands-on support towards receiving the Green Climate Fund certification which will overall strengthen its institutional governance and fund-raising capacity to deliver on Indonesia's ambitious climate objectives.

3/11/2024

The components, outcomes and outputs have been revised. A TOC has been included. 'Live coral cover and reef fish biomass in select MPAs is maintained or increased?' has been added as one of the two PDO level indicators of the project and the impact metrics who will trigger the conservation success payment from GEF.

**3.2 Are gender dimensions, knowledge management, and monitoring and evaluation included within the project components and appropriately funded?**

**Secretariat's Comments**

Please mainstream gender dimensions into the components and ensure they are sufficiently funded.

**[Additional comments 04/02/2024](#)**

Additional comment from Gender team:

We note the comments addressed in the project document, but gender equality is not referenced in the project description and Indicative Project Overview in the Portal. Please ask the Agency to reflect gender in the portal, to be coherent with the Project document. In the development of the Gender Action Plan, please ensure that gender-related actions are budgeted, monitored, and reported on



4/23/24:

Cleared.

### Agency's Comments

Additional comment 4/16/2024

Thank you. We have referenced gender equality in the project description and added an output in the Indicative Project Overview.

3/11/2024

Thank you. We have mainstreamed gender more explicitly into the project. The project builds on the gender gap analysis conducted for the Oceans for Prosperity Project (LAUTRA), which identifies gender gaps in MPA management and outcomes. The project will contribute to addressing these gaps, with more specific actions to be identified during appraisal. Broadly speaking, gender mainstreaming in the project will include;

- Ensuring Component 1 activities to promote compliance with IUCN Green List criteria are gender sensitive. This includes demonstrating that MPA governance arrangements help advance gender equity in relation to management of the site.
- Ensuring equal access to training and development opportunities under Component 2.
- Measuring progress against gender actions through the results framework.

**3.3 a) Are the components adequately funded?**

**b) Are the GEF Project Financing and Co-Financing contributions to PMC proportional?**

**c) Is the PMC equal to or below 5% of the total GEF grant for FSPs or 10% for MSPs? If the requested PMC is above the caps, has an exception (e.g. for regional projects) been sufficiently substantiated?**

### Secretariat's Comments

There is not enough detail to assess this question.

a.) i.) Please rework budget/funding of components to accommodate the revision of the proposed components for GEF financing;

ii.) Component 4 is project management which should not be pulled out as a distinct Component, but instead integrated throughout and included in PMC. If PMC is not being requested of the GEF, then the PMCs that are being funded with Co-finance should be shown and treated as PMC no less and integrated in. If Component 4 is M&E, it should be titled and described as such.

b.)NGI projects do not usually include PMC.

c.) n/A

#### **Additional comments 04/02/2024**

Partially cleared.

Components of the conservation activities to be funded with foregone coupons will need to be defined during PAD development. The GEF team will assess whether the activities funded at MPA level are likely to generate GEBs.

The co-financing of US\$ 5M from IBRD would also need to be established at Component level. The project document does not include that financing in the table. Please add and specify.

**4/23/24:**

1. The PCN has the details of IBRD financing at component level but the information in the PIF is not the same (name of components is different and financing and co-financing levels are also not matching). Please address for consistency. Component 2 (with 3 subcomponents) should be part of the main co-financing table that mentions foregone coupons + IBRD loan.

2. Under the component that describes the Conservation Success Payment in the PIF, please edit to reflect the possibility of partial repayment to the GEF of the performance-based financing based on the payout of the step-up payment of the Bond.

**4/29/24**

**Cleared.**

#### **Agency's Comments**

**Additional comments 4/25/2024**

1. Done. Please note that while all subcomponents of Component 2 were reflected in the main table, the budgeting of Subcomponent 2.1 Project Management was included under

the PMC section and the budgeting of Subcomponent 2.2 Monitoring and Evaluation was included under the M&E section. This is done due to earlier comments from GEFSEC to do so.

## 2. Done

Additional comments 4/16/2024

We agree that the list of proposed activities would need to be refined during PAD development to fully establish conservation activities that (i) are additional to EVIKA and (ii) ensure GEBs generation. The changes will be reflected in the revised TOC in the PAD.

IBRD co-financing will support Component 1 (US\$4 million) and Component 2 (US\$1 million). IBRD support for Component 1 (\$4 million) has been separated out in Table B in the portal. Component 2 has three sub-components which will be financed by IBRD as follows: 1) Project Management (US\$300,000) - this is reflected under PMC in Table B 2) Monitoring and Evaluation (US\$300,000) - this is reflected under Monitoring and Evaluation in Table B, and 3) Capacity Building, coordination, and knowledge management (US\$400,000) - this is reflected under Component 2 in Table B.

Please also see the breakdown here:

Project financing table (US\$ million)

	LAUTRA	GEF NGI	BNP Paribas	Capital Market
Component 1. Improve Management Effectiveness of Target MPAs to Deliver Measurable Outcomes	4			<b>150</b>
Component 2: Project Management and Monitoring				
Sub-component 2.1. Project Management	0.3			
Sub-component 2.2. Monitoring and Evaluation	0.3			
Sub-component 2.3. Capacity Building, Coordination, and Knowledge Management	0.4			
Conservation Success Payment Conservation Success Payment		13.76	1.1	
<b>TOTAL</b>	<b>5</b>	<b>13.76</b>	<b>1.1</b>	<b>150</b>

3/11/2024

Thank you. The table showing the funding of components has been revised.

Similar to the Rhino bond project we have kept a component focused on project management and monitoring. This will be fully funded by the forgone coupon payment, not by GEF NGL.

#### 4 Project Outline

##### A. Project Rationale

##### 4.1 SITUATION ANALYSIS

**a) is the current situation (including global environmental problems, key contextual drivers of environmental degradation, climate vulnerability) clearly and adequately described from a systems perspective?**

**b) Are the key barriers and enablers identified?**

##### Secretariat's Comments

a.) Please further develop the situational analysis.

b.) Please further describe the key barriers and enablers as a basis for the TOC

Yes. Cleared.

##### Agency's Comments

[3/11/2024](#)

[Please further develop the situational analysis](#)

During the project identification mission IUCN and World Bank experts conducted a review of existing management plans and undertook interviews with a subset of stakeholders in the four target MPAs. These three threats were identified as important:

? Overfishing and destructive fishing includes the use of illegal fishing methods such as bomb and cyanide fishing.

? Zone compliance includes compliance with permit requirements (e.g., seaweed farmers possess the correct licenses and permits), as well as incursions by fishing vessels into protected/restricted zones.

? Visitor impacts include physical damage to reefs by divers, anchor damage, and pollution (e.g., waste water and/or plastic pollution).

Importantly, the mission noted that:

? The intensity and frequency of these threats does not appear to be well understood by management units.

? No prioritization of threats is currently applied.

? No information is available to indicate spatial or temporal trends in threats, or to demonstrate how threats intensity/ frequency has changed in response to mitigation measures (i.e., whether threat mitigation is effective).

? Threat response tends to be reactive rather than strategic (i.e., patrol boats are deployed in response to reported bomb fishing incidents, rather than a strategic response to deter or prevent bomb fishing in known hotspot locations)

Long-term monitoring data is available for the four target sites. A preliminary review of these data suggests that only marginal differences in reef health are detected between no-take zones and use zones, and between inside and outside MPA areas. The above key threats are thought to contribute to the current lack of biodiversity enhancement within no-take zones.

Demonstrating an understanding of threats and how this informs management action is a requirement of the Green List standard. Furthermore, addressing these priority threats is a key component of the project's theory of change and delivery of biodiversity outcome targets.

The findings will be further confirmed and elaborated during project preparation, as well as during the comprehensive threat identification and risk assessment implemented under the project.

Mitigation actions will include:

? Expanding outreach to stakeholder groups about MPAs rules, regulations and benefits.

? Increasing stakeholders engagement in MPA management.

? Using technology to improve the detection of destructive fishing and identification of hot spot areas. This may include the deployment of hydrophones to detect bomb fishing, and the deployment of SMART Conservation Tools to aid the compilation, synthesis and use of intelligence from diverse stakeholders. Information will be used to inform a more intelligence-led and risk-based approach to MPA monitoring and surveillance, with the aim of deterring and preventing destructive fishing activity.

? Moving from the current activity/output-based model of management implementation to a Limits of Acceptable Change (LAC) system in which the amount of change to be allowed is defined explicitly by means of quantitative standards, the appropriate management actions needed to prevent further change are identified, and procedures for monitoring and evaluating management performance are established. Specific examples include implementing the LAC system on tourism focal areas such as dive sites to ensure that visitation rates and visitor behaviors are not detrimental to the site.

? Improving processes for managing and distributing visitor pressure across a wider area, including through the deployment of permitting and ticketing systems to limit visitor numbers on key sites.

Please further describe the key barriers and enablers as a basis for the TOC

This has been added in the TOC

## 4.2 JUSTIFICATION FOR PROJECT

- a) Is there an indication of why the project approach has been selected over other potential options?
- b) Does it ensure resilience to future changes in the drivers?
- c) Is there a description of how the GEF alternative will build on ongoing/previous investments (GEF and non-GEF), lessons and experiences in the country/region?
- d) are the relevant stakeholders and their roles adequately described?

### Secretariat's Comments

A) No. Further justification and explanation of site selection is needed given past and ongoing investment there. From a biodiversity standpoint the sites are some of the most important marine ecosystems and coral reefs in the world, but the proposal does not make a case for an additional NGI investment on top of the significant current and past investment in MPAs in these sites. Further, there is no clear description or assurance that this investment wouldn't overlap, be redundant or double counted with past and current investments. This needs further consideration and explanation.

B) Not provided.

C) Please provide how this initiative will build on: GEF# 10873: Effectively Managing Networks of Marine Protected Areas in Large Marine Ecosystems in the ASEAN Region (ASEAN ENMAPS); GEF# 10867: Towards Sustainable and Conversion-Free Aquaculture in Indonesian Seas Large Marine Ecosystem (ISLME), GEF# 10575: Coral Reef Rescue: Resilient Coral Reefs, Resilient Communities; GEF# 10069: Sustainable management of fisheries, marine living resources and their habitats in the Bay of Bengal region for the benefit of coastal states and communities; GEF# 9129: Eco-system Approach to Fisheries Management (EAFM) in Eastern Indonesia (Fisheries Management Area (FMA)- 715, 717 & 718), and GEF# 6920: Implementation of the Arafura and Timor Seas Regional and National Strategic Action Programs.

D) No.

### [Additional comments 04/02/2024](#)

A) The justification of the project needs to specifically address how this GEF intervention will result in higher management effectiveness vs the EVIKA gold standard.

Therefore, the baseline of this project should compare the project outcomes vs the EVIKA standards. What conservation activities will be additional to the EVIKA ones and how the IUCN certification will likely deliver the geophysical indicators?

B) Please justify the GEF additionality in this project and how the assumption of additional conservation activities with only US\$ 10 M for such a vast area is enough to deliver biophysical indicators that otherwise would not be achieved by activities financed by LAUTRA ? will help achieve those.

This is partly explained in point 22 of PCN, but needs to focus on the additional GEBs and achievements the financing with this project will achieve and build baselines and TOC based on LAUTRA activities.

4/23/24:

Cleared. Ensure this is included in PIF/PCN (please point out where in the document we can find this explanation).

4/29/24

Cleared.

## Agency's Comments

Additional comment 4/25/2024

Thank you, this information has been added to the PCN (edits in track change mode in paragraph 22 and paragraph 55) and the portal/the PIF under Coordination and Cooperation with Ongoing Initiatives and Projects.

Additional comments 4/16/2024

A) LAUTRA measures an increase in management effectiveness, using the Government of Indonesia's self-assessed EVIKA scorecard. In contrast, Coral Bond uses the world's only independently assessed and audited MPA evaluation tools (the IUCN Green List certification) to assess whether biodiversity outcomes have been achieved.

Quantified biophysical baselines are currently being prepared. Comparisons with the EVIKA outcomes have been made. In reaching EVIKA Gold (the highest standard), there is no requirement to achieve (a) a reduction in threat intensity or frequency; or (b) an increase in biophysical outcomes. The Coral Bond project addresses both of these.



Specific conservation activities are addressed below (including in the Theory of Change), and will be better reflected in the description of project activities and in the TOC in the PAD.

B) LAUTRA aims to improve MPA management effectiveness in line with the Government of Indonesia's existing EVIKA scorecard. The project places a priority focus on strengthening institutional capacity and governance frameworks. In comparison, the Coral Bond project aims to accelerate MPA management effectiveness beyond EVIKA, and in line with global best practice. This is reflected in two central elements of the Coral Bond project's design: (i) the setting of measurable, MPA-level biophysical targets (something that is not currently mandated in Indonesia's MPA governance frameworks); and (ii) the identification and mitigation of specific threats (again, something that is not currently tracked in the Government of Indonesia's MPA management reporting, and consequently is not addressed by the LAUTRA project). The Coral Bond project is designed to maximize the impact of the US\$10 M investment. It does this via two strategies. First, by leveraging LAUTRA investments into the enabling environment (e.g., human resource capacity, physical infrastructure and assets, regulatory strengthening, etc.), ensuring that Coral Bond investments are targeted towards works 'on the ground'. And second, by prioritizing investments and actions (and, as a consequence, outcomes) into defined zones within the MPAs (i.e., core zones), thus minimizing the total area.

The project will deliver global environmental benefits in biodiversity, with a focus on two specific areas that align with GEF's areas of interest:

1. Conservation of globally significant biodiversity. The Coral Bond's payment triggers are based on measurable biodiversity outcomes being achieved. Namely, improvements in coral abundance (% live hard coral cover) and fish abundance (biomass);
2. Sustainable use of the components of globally significant biodiversity. The project aims to identify, prioritize and mitigate specific threats to biodiversity, including those that arise from fishing, tourism or other uses. As such, the project specifically measures a reduction in threat intensity and frequency, or in other words an increase in sustainable use.

The Coral Bond project will be implemented with the Coral Triangle, a region recognized for its globally significant coral reef biodiversity,

The outcomes are additional to LAUTRA. While LAUTRA measures an increase in MPA management effectiveness, it does not explicitly measure any reduction in threat intensity or frequency, or any increase in biodiversity outcomes.

Theory of Change

LAUTRA will:

1. Update MPA management governance frameworks (including updating management plans);

- ? Enhance human resource capacity for MPA management;
- ? Equip MPAs with the infrastructure and assets required for effective management;
- ? Strengthen partnerships and collaboration for MPA management; and
- ? Enhance the livelihoods and benefits that MPAs provide to local communities.

The Coral Bond project will:

- ? Enhance engagement with minority and marginalized stakeholder groups;
- ? Mitigate specific priority threats;
- ? Establish measurable, MPA-level biodiversity outcome targets.

Together, the combined investments of LAUTRA and Coral Bond will deliver measurable biodiversity outcomes and GEBs.

(quantified baselines and forecasts are currently in preparation)

3/11/2024

Further justification and explanation of site selection is needed given past and ongoing investment there. From a biodiversity standpoint the sites are some of the most important marine ecosystems and coral reefs in the world, but the proposal does not make a case for an additional NGI investment on top of the significant current and past investment in MPAs in these sites.

The Coral Bond project aims to stimulate private sector investments that are aligned with GEF strategic priorities, and to demonstrate replicable approaches for sustainable marine conservation financing. Significant current and past investments in these MPAs have established the institutional capacity, management systems and community engagement that are prerequisites for this project. Until now, none of these previous investments have specifically targeted biodiversity outcomes as the primary performance metric, in a manner that is attractive to private investors. The Coral Bond project aims to build upon and lock in these prior investments, while at the same time establishing a pathway to transition away from grant based instruments in these sites.

Further, there is no clear description or assurance that this investment wouldn't overlap, be redundant or double counted with past and current investments. This needs further consideration and explanation.

The Coral Bond project leverages and builds upon past and current investments in these sites. Key features inherent in the project's design minimize the risk of overlap or double counting. These include the use of outcome-based performance metrics, a well-defined theory of change including the identification of specific threats and mitigating actions required to deliver the targeted biodiversity outcomes, and independent verification of project results. Furthermore, the Coral Bond project will be implemented within a subset of MPAs targeted by the Oceans for Prosperity (LAUTRA) project. While the Coral Bond addresses four MPAs, the remaining 16 LAUTRA MPAs will provide a counterfactual against which the incremental achievements and additionality of the Coral Bond project can be demonstrated.

Having target MPAs reach independently verified global standard of best practices in equitable governance, sound planning, effective management and successful conservation outcomes contrasts with the fact that most MPAs, including in Indonesia, are not implemented properly and fail to reach their conservation goals. A preliminary IUCN Green List field assessment of the four target MPAs was conducted by IUCN and World Bank experts in February 2024. It reveals an overall 59 to 65 percent gap to reach 100 percent alignment with all IUCN Green List criteria (a requirement to be included in the IUCN Green List). This gap is what the project will address.

In addition, the project will aim to maintain or increase live coral cover and reef fish biomass inside select MPAs. This contrasts with the widespread declines in live coral cover and reef fish biomass reported for many of the world's coral reefs, including inside Indonesian MPAs. This change of trajectory is what the project activities will contribute to.

Please provide how this initiative will build on: GEF# 10873: Effectively Managing Networks of Marine Protected Areas in Large Marine Ecosystems in the ASEAN Region (ASEAN ENMAPS); GEF# 10867: Towards Sustainable and Conversion-Free Aquaculture in Indonesian Seas Large Marine Ecosystem (ISLME), GEF# 10575: Coral Reef Rescue: Resilient Coral Reefs, Resilient Communities; GEF# 10069: Sustainable management of fisheries, marine living resources and their habitats in the Bay of Bengal region for the benefit of coastal states and communities; GEF# 9129: Eco-system

Approach to Fisheries Management (EAFM) in Eastern Indonesia (Fisheries Management Area (FMA)- 715, 717 & 718), and GEF# 6920: Implementation of the Arafura and Timor Seas Regional and National Strategic Action Programs.

This has been addressed in our response to the first comment.

Adequately describe the relevant stakeholders and their roles

**Indonesia Environment Fund (IEF).** IEF is a public service agency accountable to and structurally operationalized under the Ministry of Finance (MOF). The IEF will serve as the Fiduciary agency to distribute investor coupon payments for the financing of activities to improve conservation outcome of the MPAs. As the lead implementing agency of the project, IEF will be responsible for overall project coordination, day-to-day management, budgeting, financial management, safeguards monitoring, project progress monitoring, evaluation and reporting, and coordination with other government agencies.

**Ministry of Marine Affairs and Fisheries (MMAF).** MMAF is the Indonesian government agency responsible for developing and implementing marine and fisheries policies, programs, and activities, as well as providing technical support and supervision for marine and fisheries affairs at the sub-national level. Within MMAF, the Directorate General of Marine Spatial Management (DGMSM), is responsible for the management, protection and conservation of coastal and marine ecosystem, restoration, and rehabilitation of over-exploited marine ecosystem, as well as coastal community empowerment. DGMSM - MMAF will serve as the Project Board as well as chair of Project Technical Committee, providing technical guidance and advice for project planning, implementation, and monitoring and evaluation. MMAF's representative offices (Unit Pelaksana Teknis/UPT) will support project implementation at two national MPAs/sites, KKN Savu Sea and KKN Raja Ampat. The UPT will be supported by technical and administrative personnel who will be responsible for day-to-day management at their respective sites, activities planning, facilitation, monitoring and evaluation, and reporting. The UPT will also facilitate coordination with relevant stakeholders at the subnational level.

**Ministry of National Development Planning (BAPPENAS).** BAPPENAS, the Ministry of National Development Planning, Republic of Indonesia, is an Indonesian central government institution which is responsible for formulating national development planning and budgeting (annual, five-years, and long term). BAPPENAS has also a responsibility to coordinate international development (bilateral, unilateral and multilateral) cooperation. The working unit under the Deputy of Natural Resources - BAPPENAS, the Indonesian Climate Change Trust Fund (ICCTF) will implement project activities in support to the sustainability of project outcomes, such as: a) assess the feasibility and identify options for the development of private tourism concessions models and co-management arrangements in MPAs; b) develop business plans and build site managers capacity in financial planning and management; and c) integrate MPAs financial needs and the development of similar innovative MPA financing instruments into medium

and long-term development plans; d) ensure that lessons learned and best practices from this innovative outcome-based financing instruments are shared (through the Blue Finance Advisory Committee for example).

**UPTD-BLUD KKPDR Raja Ampat, Provincial Government of Southwest Papua.** The Raja Ampat Marine Park Authority and Management Unit, officially named *The Regional Public Service Agency Regional Technical Implementing Unit (BLUD UPTD) in the Management of the Conservation Area of the Raja Ampat Islands*, is the Technical Unit responsible for the management of Raja Ampat Provincial MPA, as an extension of the Provincial Government's Maritime and Fisheries Service (DKP) Southwest Papua.

**UPTD Alor, Provincial Government of East Nusa Tenggara.** UPTD Alor is the Technical Unit responsible for the management of Alor Provincial MPA, as an extension of the Provincial Government's Maritime and Fisheries Service (DKP) of East Nusa Tenggara.

**NGOs in East Nusa Tenggara and Raja Ampat.** Most of the activities at the local level will be carried out by 2 NGOs (one for each province).

**Coastal communities in East Nusa Tenggara and Raja Ampat.** The project beneficiaries are the local communities within/surrounding the 4 sites. It is estimated 395 villages will benefit from the project.

## 5 B. Project Description

### 5.1 THEORY OF CHANGE

a) **Is there a concise theory of change that describes the project logic, including how the project design elements will contribute to the objective, the expected causal pathways, and the key assumptions underlying these?**

b) **Are the key outputs of each component defined (where possible)?**

#### Secretariat's Comments

a.) The project does not have a theory of change. Since the GEF Performance based grant or Success Payment will be provided by the GEF based on the achievement of conservation outcomes, a clear theory of change with Outputs and Outcomes of conservation activities to be funded by the foregone coupons is required.

b.)

i.) Please include a metric (or at least a *direct proxy*) of the ecological performance/positive biophysical impact of the MPA for NGI support to this marine nature bond. The literature indicates that ecological performance of MPAs is best

understood by direct measures including fish biomass among others (e.g. inside/outside baseline/benchmark vs treatment). Please include direct biophysical indicator(s) of marine ecosystem health for instance fish biomass, ecosystem/coral integrity/health or other such measures as the trigger for payment. This goes above and beyond the GL assessment/certification scheme which is an aggregate measure--not a direct measure nor even a direct proxy--and thus not a strong predictor of ecological/biodiversity outcomes.

ii.) If the bond is to stay a *?coral bond?* a metric could include extent and/or quality of coral, and could consider a stepwise approach for payouts, one, the other, or both. If the bond is not focused on coral reef status/metric directly, then selecting a name for the bond that is consistent with the biophysical metric/trigger for payout is recommended.

iii.) Regardless of the final metric selected, please include provisions for a baseline/benchmark against which to measure ecological outcome/result.

iv.) Given the level of current and past investment in the selected sites, please provide a clear approach and explanation for how the achievement of the metric identified for the bond can be attributed to this investment.

#### [Additional comments 04/02/2024](#)

Please include Theory of Change diagram into the WB datasheet.

The TOC should specifically address how this project is additional to current efforts and necessary vs EVIKA standards and activities on the ground different or additional to EVIKA standards.

If some of the MPAs selected wont benefit from LAUTRA or follow the EVIKA standards, you need to make it clear with a different baseline.

The overall assumption to be tested here is improving management vs the Standard activities financed by LAUTRA.

4/23/24:

Cleared. Will project proponents consider changing the name of this bond to the *?coral reef?* bond, or the *?coral ecosystem?* bond to more accurately capture the broader ecosystem scale on which the project is working?

4/29/24

TOC included in PCN and PID. Cleared.

## Agency's Comments

Additional comment 4/25/2024

Thank you for your suggestion. There is a strong government ownership of this project, including of the name of the project. While from the World Bank side we see changing the name to coral reef bond as an option, we would need to discuss further with MMAF, IEF and Bappenas to collectively agree on this new name. We suggest to have this discussion with the government during next stage of project preparation.

Additional comments 4/16/2024

- Theory of Change diagram is included under the Project Summary section.

LAUTRA will target 20 MPAs. The Coral Bond will focus on 4 LAUTRA MPAs. In other words, the overall assumption is that Coral Bond will improve management and delivery of biodiversity outcomes beyond those achieved by LAUTRA (and the remaining 16 LAUTRA MPAs will provide a counterfactual against which this can be quantitatively measured).

All 20 MPAs will follow the EVIKA standard. The 4 Coral Bond MPAs will also follow more stringent requirements.

Theory of Change (also included in our response above)

LAUTRA will:

- ? Update MPA management governance frameworks (including updating management plans);
- ? Enhance human resource capacity for MPA management;
- ? Equip MPAs with the infrastructure and assets required for effective management;
- ? Strengthen partnerships and collaboration for MPA management; and
- ? Enhance the livelihoods and benefits that MPAs provide to local communities.

The Coral Bond project will:

- ? Enhance engagement with minority and marginalized stakeholder groups;
- ? Mitigate specific priority threats;
- ? Establish measurable, MPA-level biodiversity outcome targets.

Together, the combined investments of LAUTRA and Coral Bond will deliver measurable biodiversity outcomes and GEBs.

3/11/2024

A clear theory of change with Outputs and Outcomes of conservation activities to be funded by the foregone coupons is required:

The Theory of Change has been added to the PCN with outputs and outcomes of conservation activities to be funded by foregone coupon payment.

Please include a metric (or at least a direct proxy) of the ecological performance/positive biophysical impact of the MPA for NGI support to this marine nature bond.

Live coral cover and reef fish biomass have been included as metrics of the ecological performance of the MPA.

If the bond is to stay a ?coral bond? a metric could include extent and/or quality of coral, and could consider a stepwise approach for payouts, one, the other, or both. If the bond is not focused on coral reef status/metric directly, then selecting a name for the bond that is consistent with the biophysical metric/trigger for payout is recommended.

Live coral cover and reef fish biomass have been selected as the metrics who will trigger the conservation success payment from GEF.

Regardless of the final metric selected, please include provisions for a baseline/benchmark against which to measure ecological outcome/result.

A number of surveys have been conducted at the proposed coral bond sites and in three of them the time series dates back to 2015. In order to set the baselines and thresholds for evaluation the successful ecological outcome the team recently gathered raw data from existing studies at each MPA and will assess the condition of fish biomass and coral cover in the different MPA use zones and outside the MPA where possible. These data would be analysed to identify trends in fish biomass and live coral cover and set baselines based on the most recent data or averages across the dataset. These trends and baselines would then be used to set targets for the biophysical metrics that should be achieved by the conclusion of the coral bond project. An appropriate and standardised approach will be developed to monitor progress towards these targets at each of the MPAs.



Given the level of current and past investment in the selected sites, please provide a clear approach and explanation for how the achievement of the metric identified for the bond can be attributed to this investment.

The additionality of the Coral Bond project will be demonstrated via two approaches.

1. The Project will be designed to incorporate outcome-based performance metrics, a well-defined theory of change, and the identification of specific threats and mitigating actions required to deliver the targeted biodiversity outcomes. As such, potential overlaps can be identified and mitigated at the design phase.

2. The Project will be implemented within a subset of MPAs targeted by the LAUTRA project. While the Coral Bond addresses four MPAs, the remaining 16 LAUTRA MPAs will provide a counterfactual against which the incremental achievements and additionality of the Coral Bond project can be demonstrated.

To date approaches to improving MPA management in Indonesia have focused on improving a site's EVIKA score. While this has led to significant improvements across the MPA network an evaluation of the four best performing sites as rated by EVIKA found these MPAs falling short of global best practice in protected area management as defined in the IUCN Green List Standard. This preliminary study, conducted in February 2024, that used data collected through interviews, group discussions and town halls with stakeholders and area managers, found the four sites scored between 35% and 41% alignment with the Green List criteria. Despite the existing investment, notable gaps were identified by the preliminary assessment that could be addressed by targeted management approaches to be implemented through the Coral Bond project. The target MPAs would need to reach 100 percent alignment to reach IUCN Green List status, which is feasible within the timeframe of the Coral Bond project. Gaps to be filled thanks to the project include: (i) improve stakeholder and rightsholders identification and engagement at each site, including the mapping and development of potential co-management arrangements and the promotion of gender equity and diversity; (ii) improve understanding of the social and economic context, to be reflected in management goals and objectives; (iii) clearly identify biodiversity and socioeconomic targets; (iv) ensuring that major threats, including impacts of climate change, are understood and mitigation activities reflected in management planning and implemented, such as improving management of access to resources and strengthening compliance with resource regulations; (v) enhance monitoring of conservation and socio-economic outcomes; and (vi) ensure that arrangements are in place to deal with financial sustainability.

The indicators for successful project outcome will be to maintain or increase reef fish biomass and live coral cover inside the selected MPAs. This contrasts with the widespread declines in live coral cover and reef fish biomass reported for many of the world's coral reefs, including inside Indonesian MPAs. Addressing the gaps identified by the preliminary study with targeted actions funded by the Coral Bond can produce these successful outcomes for fish biomass and coral cover through a range of well understood

pathways. Filling the gaps in understanding the stakeholder and rightsholder context and improving their awareness and engagement improves compliance with MPA regulations and generates active participation in management. At present the threat assessment and management for each site is severely limited in scope and none of the sites are actively considering the impacts of climate change in their management activities. Without a proper risk assessment and threat prioritization it is unlikely sites will be able to appropriately address the threats that cause declines in fish biomass and coral cover. Developing a set of measurable biophysical targets in the management plans, alongside a coherent strategy for monitoring the biophysical trends will allow for active management in response to changes in the condition of the environment including defined actions in response thresholds and limits of acceptable change.

## 5.2 INCREMENTAL/ADDITIONAL COST REASONING

**Is the incremental/additional cost reasoning properly described as per the Guidelines provided in GEF/C.31/12?**

### Secretariat's Comments

Please include and describe the incremental/additional cost reasoning in the PIF, (particularly considering significant ongoing and past investment (GEF and others) in MPA management effectiveness at the same sites-addressed elsewhere in the review, and the redaction of proposed component 2).

Yes. Cleared.

4/29/24

If IEF is executingb agency please change PCN info where IEF appears to be Fiduciary agent only.

### Agency's Comments

5/2/2024

This is done.

3/11/2024

### Describe the incremental/additional cost reasoning

The LAUTRA project will provide financing of US\$ 200 million to improve management effectiveness rating of 20 MPAs in eastern Indonesia. The additional NGI financing requested from GEF will enable: (i) the identification and mitigation of specific threats inhibiting management objectives; and (ii) the achievement and independent verification

of biodiversity outcomes. These additional outcomes are necessary to secure private sector investments that are aligned with GEF strategic priorities, and to demonstrate replicable approaches for sustainable marine conservation financing.

### 5.3 IMPLEMENTATION FRAMEWORK

**a) Is the institutional setting, including potential executing partners, outlined and a rationale provided?**

**b) Comments to proposed agency execution support (if agency expects to request exception).**

**c) Is there a description of potential coordination and cooperation with ongoing GEF-financed projects/programs and other bilateral/multilateral initiatives in the project area**

**d) Are the proposed elements to capture and disseminate knowledge and learning outputs and strategic communication adequately described?**

Secretariat's Comments

A) Yes. However, the executing partners should be agreed by the OFP.

B) No

C) No: please describe.

D) Yes.

#### **Additional comments 04/02/2024**

a) The participation of the local fiduciary agent is welcome but for PAD we would need to understand the governance and execution arrangements of the different conservation activities on the ground and their linkages to TRE and WBG operations.

Please mention projects listed in the review sheet (GEFID 5171, 10431, 9129, 6920 etc.) and LAUTRA and how the project will coordinate with the existing initiatives.

How does the governance address major threats and challenges in overfishing and local community buy-in?

4/23/24

The role of IEF seems to have increased from a payment agent (as described in the previous version of the PIF) to a more active execution player. It is now confusing who will execute the project components: is it the WBG or IEF? What we understand so far since we are the providers of the financing to the World Bank under legal arrangements

that mimic the Rhino Bond is that the fiduciary duties and execution would take place through the WBG, which will execute the project, this is why the PIF is marked as self-execution. If now the IEF is executing please explain further how this will work.

04/29/24 Additional comment

Please update PID where it appears IEF has only a fiduciary role.

## Agency's Comments

5/2/2024

This is done.

Additional comments 4/25/2024

This is correct; the Coral Bond will mimic the Rhino Bond legal arrangements, including for financial management. As in all World Bank projects, the Rhino Bond, and the Coral Bond are following the World Bank IPF policies and procedures, which includes financial management.

A Grant Agreement and Transfer Agreement will be signed between the World Bank and IEF. A Project Management Office (PMO) will be established in the IEF to administer the project. The PMO will be staffed with project director and with technical coordinator/assistants, fiduciary and safeguards specialists. The PMO will prepare an annual work program, budget, update monitoring and evaluation indicators based on input from the implementing partners. The PMO will also prepare consolidated quarterly financial report and annual financial report. The implementing partners, including Bappenas-ICCTF and NGOs, will conduct activities at the site level, in support to, and in coordination with, the MPA management units. The implementation arrangements will be refined during project preparation.

Additional comments 4/16/2024

a) Thank you. The governance and execution arrangements will be further detailed in the PAD.

b) Thank you. We have added specific reference to the GEF projects and LAUTRA in the description of the coordination mechanisms.

c) IUCN Green List Component 1 addresses ?Good Governance?.

- Criterion 1.1 ?guarantee legitimacy and voice? requires evidence that there ?clearly defined, legitimate, equitable, and functional governance arrangements, in which the

interests of civil society, rights-holders and stakeholders, are fairly represented and addressed, including those relating to the establishment or designation of the site?.

- Criterion 1.2 'achieve transparency and accountability' requires evidence that 'governance arrangements and decision-making processes are transparent and appropriately communicated, and responsibilities for implementation are clear, including a readily accessible process to identify, hear and resolve complaints, disputes, or grievances?.

Consultations conducted during the Coral Bond preparation mission revealed that the target MPAs do not fully align with these Criteria. The project will address this by strengthening stakeholder identification and involvement in MPA management. This is an important requirement for MPAs to be able to deliver their benefits. See for example this paper: Fidler et al., 2022, 'Participation, not penalties: Community involvement and equitable governance contribute to more effective multiuse protected areas?', Science Advances. The research uses a long-term, quasi-experimental monitoring dataset from four Indonesian MPAs that demonstrates that multiuse MPAs can increase fish biomass, but incorporating multiple governance principles into management regimes and enforcing rules equitably are critical to achieve ecological benefits.

[3/11/2024](#)

[Description of potential coordination and cooperation with ongoing GEF-financed projects/programs and other bilateral/multilateral initiatives in the project area](#)

Coordination with ongoing GEF-financed programs will use two existing platforms:

1. Semesterly coordination meeting/monitoring for all GEF-programs jointly led by the Ministry of Environment and Forestry (GEF Focal Point) and MMAF. The coordination meetings are normally held every six months and attended by executing agencies (relevant technical units in MMAF) and implementing agencies (NGOs), with the objective to review the progress, issues and required actions of their ongoing GEF projects.
2. National Blue Action Agenda Partnership (NBAAP) led by the Coordinating Ministry of Maritime Affairs and Investment (CMMAI). Established in November 2022 by CMMAI and United Nations Resident Coordinator (UNRC), the NBAAP serves as a government-donor collaboration platform which aims to monitor progress and contribution of bilateral/multilateral programs against Indonesia's national development targets in marine and fisheries sector.

**5.4 a) Are the identified core indicators calculated using the methodology included in the corresponding Guidelines (GEF/C.54/11/Rev.01)?**

**b) Are the project's indicative targeted contributions to GEBs (measured through core indicators)/adaptation benefits reasonable and achievable?**

### Secretariat's Comments

The identified core indicators should also consider including the GEF Core Indicator 8 for fisheries as this should be a direct benefit of improved and expanded MPA management.

Yes. Cleared.

### Agency's Comments

3/11/2024

The identified core indicators should also consider including the GEF Core Indicator 8 for fisheries as this should be a direct benefit of improved and expanded MPA management

The Coral Bond project overlaps Fishery Management Areas WPP 573, 714, 715, 717.

Indonesia's most recent stock assessment (19/KEPMEN-KP/2022) revealed that:

WPP573 reef fish are overexploited, with utilization 2.5 times a total allowable catch of 247,950 mt;

WPP714 reef fish are overexploited, with utilization 1.1 times a total allowable catch of 60,663 mt;

WPP715 reef fish are overexploited, with utilization 1.3 times a total allowable catch of 52,668 mt; and

WPP717 reef fish are overexploited, with utilization 1.2 times a total allowable catch of 9,907 mt.

The Coral Bond project will contribute to the sustainable management of 371,188 mt of reef fish production.

**5.5 NGI Only: Is there a justification of financial structure and use of financial instrument with concessionality levels?**

### Secretariat's Comments

No. Additional work is required on the financial structure and outcomes needed for payment. There was no detail of the activities that would take place under the foregone coupons to deliver the desired outcomes (i.e. the improved management to be certified by the IUCN Green List). The Rhino Bond-that this structure is seeking to emulate- relied on a strong theory of change with activities/outcomes/outputs that were then verified by a third-party calculation agent.

Size of the NGI: limit the amount of the GEF investment to Minimum between US\$ [15 M and US\$ amount that ensures a co-financing of 1:10].

#### **Additional comments 04/02/2024**

1- This section needs to clearly state the improvements of this bond vs the first wildlife conservation bond: (i) additional outcome payer from Private Sector; (ii) ecosystem-based bond vs species based bond and (iii) the participation of IEF that ensures country ownership and ?technology/knowledge? transfer.

2- Please elaborate on the payments by milestones achieve and how this will work with IEF (in collaboration with WBG operation that will oversee implementation and verify milestones are met?).

3- Please comment on longer maturity of the Bond if that is the case (TRE seemed to imply in a separate conversation that this was a 7 yr bond)

4- Payoff type: This section mentions a partial or full payment to bondholders depending on milestones. Although final numbers may change we want to see a scheme type for bondholders. [i.e. in the best case scenario US\$ 13.76M+US\$ 1M BNP is paid] worst case scenario nothing is paid. In between, what is the team/treasury envisaging? Ranges for different payoffs? Although this is to be finalized for PAD, this detail is needed for the reader to understand the benefit of investing in this bond i.e. potential additional return when compared to a plain vanilla bond. (in the case of the Rhino Bond, worst case scenario, principal was repaid and a yield of 1.06% p.a for bondholders was paid, in the best case scenario, principal with 2.83% yield per annum was paid)- the difference is the risk premium that compensates foregone coupons. We need a similar explanation here.

5- The concept notes that the bond would have different payment triggers to BNP Paribas and the GEF. For the former, it would still be only the Green List and for the GEF, it would only be ?live coral cover and reef fish biomass targets.?Please explain how this would work. The GEF suggests a single outcome for payment (biophysical indicator) may be easier to structure (and market to investors).

6-Please provide a diagram of a financial structure in this section where the co-financing of IBRD is included.

4/23/24:

1- Cleared

2- We still need at this point some detail of the outcome payment partial modality. Please include a generic payment schedule for metrics in the PIF and in the termsheet

3- Cleared

4- This feature of a minimum annual 2% coupon is different from the previous Rhino Bond structure. Please clearly include it in the description of the payout of the bond under this section. If the investors receive a secured coupon payment, please justify why an additional outcome payment is needed when compared to the traditional payout of a plain vanilla WBG bond. If Investors are not giving up on annual coupon payments, how is an additional success payment rewarding a risk (if principal and fixed coupon of 2% are guaranteed)?

5- Cleared.

6- We still need a graphical representation of the bond structure including IEF and other partners (BNP, IBRD co-financing)

4/29/24

2. Cleared . Please check with TRE if the ranges provided can be publicly disclosed

4. Cleared

6. Partially Cleared- we are missing an arrow of connection that links the WBG co-financing to the components/recipients of the foregone coupons of the Coral Bond.

Please review formatting (font in green)

## Agency's Comments

5/2/2024

2. TRE advised not to disclose the draft payment schedule publicly at this stage. Instead, the following text has been provided in the termsheet:

As noted above, investors will receive a guaranteed coupon plus an additional payment that is based on the level of success achieved in the project. As we anticipate 2 or more donors will be supporting the project, we expect to apply the larger donor's contingent



commitment to achievement of success related to Live Coral Cover and Reef Fish Biomass metrics across the 4 MPA's and tie the other smaller commitment to attainment of IUCN Green List in the 4 MPAs. The precise distribution of the donor commitments (thus the expected payments for each outcome) is still being refined, as is the determination of how much change in the metrics for each shall constitute success.

6. The Flow of Funds diagram has been revised.

Formatting has been adjusted to ensure uniform color.

#### Additional comments 4/25/2024

2. We have included the draft Coral Bond Payment Schedule for Metrics table in the Justification of Financial Structure section, in the termsheet in the PIF and PCN.

4. In the proposed bond structure investors will forgo a portion of guaranteed World Bank coupons which will be directed to finance the project. This is a variation from the Rhino Bond, where 100% of investors coupons were directed to the project. In return investors will receive a fixed coupon e.g. 2% p.a. which will be lower than ordinary World Bank coupons (which are currently 4.5% to 5% p.a.) plus an outcome payment in return for the portion of the ordinary World Bank coupons given up by investors. Given the current higher interest rate environment compared to when the WCB was issued, this feature (with a smaller than ordinary World Bank fixed coupon) will make the bond more marketable to potential investors.

6. We have included the graphic in the PIF.

#### Additional comments 04/16/2024

1- Thank you. We have revised this section accordingly.

2- The proposed outcome payment schedule will be defined during project preparation, once the proposed metrics and their targets are confirmed.

IEF, together with MMAF, will monitor project implementation, update the Results Framework indicators, and report to the World Bank. In addition, the World Bank will provide resources for project implementation support. The World Bank will maintain a core team based in Jakarta and Washington D.C., comprised of specialists in marine protected areas, blue finance, financial management, procurement, social and environmental safeguards, and monitoring and evaluation. The team based in Jakarta will maintain frequent and intensive coordination and collaboration with the government of Indonesia. The World Bank will conduct implementation support missions, including site visits, at least twice a year.

Outcome payments will be contingent on achieving the live coral cover and reef fish biomass targets, and possibly also full alignment with IUCN Green List Standard, and having these independently validated and verified via the Green List audit process.

3- At the moment the project is designed to be implemented in a 5-year period. The Government of Indonesia is more used to, and comfortable with, a 5-year project cycle.

Yet the task team will discuss further with the government during PAD development to assess whether a longer timeframe (e.g. 7 years) would be feasible.

4- Treasury is assuming investors will receive minimum coupon of approx [2%] which will be derived from the bond principle, plus additional returns that are linked to outcomes achieved with the mobilized financing. See table below.

Draft Coral Bond Payment Schedule for Metrics (this is a first draft and would need to be refined during project preparation):

MPA	Live Coral Cover	Reef Fish Biomass	IUCN Green List
	50% GEF [\$6.85M]	50% GEF [\$6.85M]	100% BNPP [\$1.1M]
KKN Laut Sawu	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [\$275k]
KKN Raja Ampat	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [\$275k]
KKPD Raja Ampat	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [ \$275k]
KKPD Selat Pantar	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [\$275k]

#### Assumptions for Outcome Payments

- GEF Funding is \$13.7 million evenly distributed across 4 MPAs
- BNPP Funding \$1.1 million is linked to achievement of Green List
- Full amount of \$14.8 million is used for Outcome Payments

#### Assumptions for Biophysical Metrics

- \*Decline in value\* ? payment = \$0
- \*Stabilized\* = 50% of corresponding outcome payment [\$0.85 million]
- \*Positive Change\* [x%+ over baseline] = 100% of corresponding outcome payment [\$1.71 million]

\*Defined terms in the agreement\*

#### Assumption for IUCN Green List Metrics

- Attains Green List - \$275,000 for respective MPA
- Fails to attain Green List - \$0 for respective MPA

5- Thank you for the advice. During development of the PAD, once biophysical metrics and their targets have been confirmed we will identify the outcome payments schedule/structure. We agree that simplicity and clarity will be important considerations,

and we will work towards the same outcome payment schedule for the GEF and BNP Paribas funds.

6- Please see project financing table in response to comment in section 3.3. In addition, co-financing information is included in the portal under the Indicative Project Overview section as well as under the NGI: Justification of Financial Structure.

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3/11/2024

Additional work is required on the financial structure and outcomes needed for payment. There was no detail of the activities that would take place under the foregone coupons to deliver the desired outcomes

The project will address deficiencies identified during an IUCN Green List pre-assessment mission conducted in February 2024, with an emphasis on:

- ? **Strengthening stakeholder participation in management** (Criterion 1.1), including by improving the identification and facilitation of minority, vulnerable and marginalized groups, and strengthening the compilation and use of stakeholder reports and intelligence in monitoring and surveillance.
- ? **Improving threat identification and mitigation** (Criterion 2.1), including risk assessment and prioritization, and the implementation of threat mitigation strategies.
- ? **Monitoring for biodiversity outcomes** (Criterion 4.1), including implementation of standardized monitoring protocols and a scientifically rigorous sampling design.

Specific activities will be elaborated during project preparation to ensure they are appropriate for the targeted outcome triggers. However, these activities are likely to include:

- ? Technical assistance to undertake comprehensive stakeholder mapping and to develop inclusive stakeholder engagement strategies;
- ? Operational support for Collaborative Forums and other participative management vehicles;
- ? Technical assistance to undertake comprehensive threat mapping, risk assessment and prioritization, and to design threat mitigation strategies;
- ? Operational support for the implementation of threat mitigation strategies;
- ? Technical assistance for routine biophysical monitoring of outcome targets.

Threat mitigation strategies are likely to prioritize (i) overfishing and destructive fishing; (ii) zone compliance; and (iii) visitor impact management. Key approaches will include the deployment of technology to enhance information and intelligence gathering and inform the efficient deployment of management resources, and the setting of threshold indicators and limits of acceptable change.

Historical (>10 years) reef health data has been provided by the government of Indonesia during a recent project initiation mission (March 1, 2024). Historical trends, future projections, and confidence limits will be evaluated during project preparation to inform the setting of appropriate outcome triggers. Two potential forms are considered: (i) a direct increase (i.e., an increase of x% relative to T0 baseline); or (ii) a relative increase (i.e., rate of change within no-take zones is x% lower than rate of change in other management zones).

## 5.6 RISKS

- a) Is there a well-articulated assessment of risk and identification of mitigation measures under each relevant risk category?**
- b) Is the rating provided reflecting the residual risk to the likely achievement of intended outcomes after accounting for the expected implementation of mitigation measures?**
- c) Are environmental and social risks, impacts and management measures adequately screened and rated at this stage and consistent with requirements set out in SD/PL/03?**

### Secretariat's Comments

The Risk table is missing.

- a.) No, please describe and address climate risks and other main risks relevant to the project concept design.
- b.) No, please identify and rate key risks that might affect the project preparation and implementation phases.
- c.) Yes.

### **Additional comments 04/02/2024**

Although there is an annex with a detailed risk list, The 'Key Risk' section is currently blank. Please complete it.

Please include any risk assessment of having IEF as a fiduciary agent (i.e. delays in disbursing, comingling of funds etc) and potential mitigation efforts

#### Additional Comments 04/23/2024

1. Please ensure all risks identified in the PCN are classified in the PIF as well.
2. The PCN includes more information on how the IEF execution can be mitigated which is welcomed in the PIF. Please reconcile documents so that we have the same information in both documents.

4/29/24

Partially Cleared ? please confirm that the additional costs of capacity building and support to IEF will be covered with WBG financing and oversight.

#### Agency's Comments

5/2/2024

This language has been added in the Risk Table under the Capacity section.

#### Additional Comments 4/25/2024

1. Thank you. We have revised the PIF Risk Table and the Risk section in the PCN accordingly.
2. More details on IEF execution has been provided under the Capacity section of the Risk Table.

#### Additional comments 4/16/2024

1) Thank you. The risk section has been completed. (Please note that at the time of the initial submission, the portal had not yet been updated/was not showing the new key risk section; that's why we had attached it separately.)

2) Thank you. We have reflected the information below in the PCN.

IEF is experienced in implementing World Bank-financed operations and is familiar with the World Bank's fiduciary requirements. On financial management, all BLU (Public Service Agency) financial management-related regulations (including budgeting, accounting, reporting, internal control, fund flow, and auditing) apply to the IEF during project implementation. These are considered adequate to support the financial management aspect of the project. IEF also demonstrated compliance with the financial management requirements of the World Bank-financed operations including timeliness of financial reporting. The project's financial management arrangement will be described in

the PAD that considers risk mitigation for all Financial Management-related risks. This include, i) timely and sufficient budget availability to minimize delays of disbursement and project activities, ii) establishment of designated account for the project to avoid comingling of funds, iii) segregation of duties between technical and financial staff and involvement of IEF internal audit unit to ensure adequate internal control, iv) requirements to include the project transactions in MoF accounting system prior to being accounted as project's expenditures, etc. This financial management arrangement will be further detailed in the Project Operations Manual subject the World Bank approval including the FM arrangement between IEF and the implementing partners. There is also risk related to the dispersed project locations and staff capacity stretch in IEF due to increasing size of project portfolio. The risk will be mitigated by the appointment of Project Management Office staff that may include staff from MMAF, as well as support from consultants including fiduciary consultants.

3/11/2024

Risks have been addressed in the PCN and in the GEF risk table which is uploaded separately in the GEF portal.

#### **5.7 Qualitative assessment**

- a) Does the project intend to be well integrated, durable, and transformative?**
- b) Is there potential for innovation and scaling-up?**
- c) Will the project contribute to an improved alignment of national policies (policy coherence)?**

#### **Secretariat's Comments**

- a) The PIF makes no mention of sustainability, nor does it contain a clear plan for sustainable MPA management effectiveness over time which is a considerable deficiency. Planning for the long-term must be a central element of investment in PA management effectiveness and needs to be comprehensively addressed. Please describe approach and plan for long-term sustainability/durability of intended project outcomes/impacts.
- b) Yes
- c) Please describe.

#### **Additional Comments 04/02/2024**

Sustainability is an area that needs further attention during project preparation phase.

What happens after the maturity of the bond? Many of the implementation activities require ongoing financial support, how would that work?

4/23/24:

Cleared. Please include the note regarding further work on sustainability project preparation period ahead of PAD.

4/29/24

Cleared

#### Agency's Comments

Additional comment 4/25/2024

Thank you. We have added an explanation on how sustainability considerations are build into the project design in the PIF under the NGI: Justification of Financial Structure section.

Additional comments 4/16/2024

Thank you. We will put more attention to sustainability considerations during project preparation phase. Sustainability is a core design feature of both LAUTRA and Coral Bond. LAUTRA will strengthen institutional capacity for MPA management, ensuring that approaches can be sustained beyond the lifespan of the project. The Coral Bond tests an innovative financing mechanism that depends on biodiversity outcomes being achieved. Activities under the Coral Bond project specifically aim to examine how the lessons learned from this project could be adopted and replicated. Furthermore, the Project aims to build investor interest in and knowledge of investments of this nature. Finally, the project will strengthen stakeholders? participation in MPA management, a key requirement to ensure the sustainability of project outcomes.

3/11/2024

The PIF makes no mention of sustainability, nor does it contain a clear plan for sustainable MPA management effectiveness over time which is a considerable deficiency. Planning for the long-term must be a central element of investment in PA management effectiveness and needs to be comprehensively addressed. Please describe approach and plan for long-term sustainability/durability of intended project outcomes/impacts

Thank you. A paragraph on project sustainability has been added to the PCN.

The Coral bond represents one of the first outcome-based ocean finance instruments globally, and aligns with targets under SDG14. Preliminary observations suggest strong market interest in instruments of this nature and, once proven, the Coral Bond model could be readily replicated to other sites within Indonesia, regionally or globally. Furthermore, the project aims to strengthen capacity within Indonesia for outcome-based project design and implementation, aiding the GOI to develop projects for sovereign or non-sovereign bond financing.

The proposed instrument will also incentivize increased investment into coral reef conservation by demonstrating the utility of robust metrics (live coral cover and reef fish biomass) in acting as payment triggers and informing outcomes. It will also ensure efficient use of limited resources by identifying most strategic activities required to improve MPA performance and coral reef health. It will demonstrate and raise awareness on MPAs benefits which should lead to increased compliance with MPAs rules and regulations and increased budget allocation for their management. The success of this project should help Indonesia attract additional financial resources from development partners and private sector by enhancing the credibility and international visibility of the government's efforts to protect its unique marine biodiversity.

The project will also support increased stakeholder engagement in MPA management, a key ingredient to the long-term success of MPAs.

BAPPENAS, the Ministry of Development Planning, will also implement project activities in support to the sustainability of project outcomes, such as: a) assess the feasibility and identify options for the development of private tourism concessions models and co-management arrangements in MPAs; b) develop business plans and build site managers capacity in financial planning and management; and c) integrate MPAs financial needs and the development of similar innovative MPA financing instruments into medium and long-term development plans; d) ensure that lessons learned and best practices from this innovative outcome-based financing instruments are shared (through the Blue Finance Advisory Committee for example).

Will the project contribute to an improved alignment of national policies (policy coherence)

The role of marine conservation in climate change adaptation and mitigation is acknowledged in the Indonesia Long-Term Strategy for Low Carbon and Climate Resilience 2050. By ensuring the effective management of MPAs, the project will also contribute to the government of Indonesia's national biodiversity and climate change targets defined in the *National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional, RPJMN) 2020-2024*, *National Ocean Policy*, *MPA Vision 2030*, *Indonesia Blue Economy Roadmap*, *National Adaptation Plan*, and international



commitments (for example, SDG14, Coral Triangle Initiative, Convention on Biological Diversity, International Coral Reef Initiative). Specifically, the project will support MPA Vision 2030 target to identify financing opportunities and mechanisms to enhance the availability of innovative sources of non-tax financing for effective MPA management.

The project will also support the implementation of *MMAF Ministerial Decree No. 31/2020 regarding the Management of Marine Protected Area*, *MMAF Ministerial Decree No.05/2014 regarding the National MPA Savu Sea*, *MMAF Ministerial Decree No.06/2014 regarding the Zonation and Management Plan of National MPA Savu Sea*, and *MMAF Ministerial Decree No. 32/2022 regarding National MPA Waigeo and Raja Ampat*.

## **6 C. Alignment with GEF-8 Programming Strategies and Country/Regional Priorities**

**6.1 Is the project adequately aligned with focal area and integrated program strategies and objectives, and/or adaptation priorities?**

Secretariat's Comments Yes.

Agency's Comments

3/11/2024

Thank you

**6.2 Is the project alignment/coherent with country and regional priorities, policies, strategies and plans (including those related to the MEAs and to relevant sectors)**

Secretariat's Comments Yes.

Agency's Comments

3/11/2024

Thank you

**6.3 For projects aiming to generate biodiversity benefits (regardless of what the source of the resources is - i.e. BD, CC or LD), does the project clearly identify which of the 23 targets of the Kunming-Montreal Global Biodiversity Framework the project contributes to and how it contributes to the identified target(s)?**

Secretariat's Comments

No. Please address in the next version.

[Additional Comments 04/02/2024](#)

Please identify additional KNMBF targets.

4/23/24:

As requested for this section, please describe how this project will contribute to KNMBF targets in the project documents

### Agency's Comments

4/25/2024

The below text has been incorporated into the PIF:

In addition to Target 3 (Conserve 30% of Land, Waters and Seas) the project will also contribute to the following Convention on Biological Diversity's Global Biodiversity Framework targets:

- Target 8: Minimize the Impacts of Climate Change on Biodiversity and Build Resilience. By investing in the conservation, enhancement and provisioning of marine and coastal ecosystem goods and services, the project will generate climate mitigation and adaptation Co-Benefits that include carbon sequestration and improved resilience of local communities and coastal areas. The project will improve the effective management of MPAs, which are a proven useful tool for climate change mitigation and adaptation of social-ecological systems (see for example: Jacquemont et al. (2022). ?Ocean conservation boosts climate change mitigation and adaptation.?)

- Target 9: Manage Wild Species Sustainably To Benefit People. By enhancing the sustainable management of coral reef ecosystems, the project will increase the value of natural resources for local, national, and global beneficiaries. For example, the protection of critical spawning and nursery grounds within MPAs will contribute to maintaining the healthy fish stocks that underpin local livelihoods and national food security.

- Target 21: Ensure That Knowledge Is Available and Accessible To Guide Biodiversity Action. This is a key focus of the project. The proposed Coral Bond uses the world's only independently assessed and audited MPA evaluation tools (the IUCN Green List certification) to assess whether biodiversity outcomes have been achieved and guide improvements in MPA management.

- Target 22: Ensure Participation in Decision-Making and Access to Justice and Information Related to Biodiversity for all. The project explicitly aims to strengthen participatory decision-making in MPA management. Improving performance against the IUCN Green List Standard will require MPAs to strengthen and demonstrate equitable and effective governance. This includes having clearly defined, legitimate, equitable, and functional governance. Proposed project activities include (i) technical assistance to

undertake comprehensive stakeholder mapping and to develop inclusive stakeholder outreach, engagement and participation strategies in each target MPA, and (ii) incremental operating costs associated with implementing these strategies, including routine operation of MPA Collaborative Forums and other participative management vehicles.

- Target 23: Ensure Gender Equality and a Gender-Responsive Approach for Biodiversity Action. Demonstrating that MPA governance arrangements help advance gender equity in relation to management of the site is one of the elements of the IUCN Green List Standard. Activities financed under the project will facilitate the identification of gender gaps and the development and implementation of an action plan outlining the steps needed to meet the IUCN Green List benchmark for gender equity in MPA management.

Additional comments 4/16/2024

In addition to TARGET 3 (Conserve 30% of Land, Waters and Seas) the project will also contribute to the following KNMBF targets:

? TARGET 8: Minimize the Impacts of Climate Change on Biodiversity and Build Resilience

? TARGET 9: Manage Wild Species Sustainably To Benefit People

? TARGET 21: Ensure That Knowledge Is Available and Accessible To Guide Biodiversity Action

? TARGET 22: Ensure Participation in Decision-Making and Access to Justice and Information Related to Biodiversity for all

? TARGET 23: Ensure Gender Equality and a Gender-Responsive Approach for Biodiversity Action

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3/11/2024

This project directly contributes to the progress toward Target 3 of the Convention on Biological Diversity's Global Biodiversity Framework to effectively protect 30 percent of land and ocean areas by 2030.

## **7 D. Policy Requirements**

### **7.1 Is the Policy Requirements section completed?**

Secretariat's Comments Yes

Agency's Comments

3/11/2024

Thank you

**7.2 Is a list of stakeholders consulted during PIF development, including dates of these consultations, provided?**

Secretariat's Comments

No.

Cleared

Agency's Comments

3/11/2024

On November 9th 2022, the World Bank together with national and local government counterparts visited villages in Kupang districts within the East Nusa Tenggara province, home to the largest MPA targetted by the project. The mission held focused group discussions with ecotourism, fisheries and aquaculture community groups, small scale ocean related businesses, village leadership and sub-national MPA management unit to understand specific challenges related to ecotourism, fisheries, and MPA management.

On February 22-24 2023 and on September 7-9 2023, the World Bank visited Raja Ampat MPAs. The team discussed MPA management challenges and innovative financing opportunities with local government, civil society organizations and community groups in Southwest Papua province.

The concept of the Coral Bond was presented and discussed on April 12 2023 at the Preliminary Meeting for the Blue Finance Advisory Committee with representatives from the government of Indonesia. Ministry of Marine Affairs and Ministry of National Development Planning requested the World Bank to proceed with Coral Bond project preparation. Ministry of Finance requested the same on September 13, 2023.

From September 6-22 2023 multiple meetings have been held and scheduled to discuss the proposed Coral Bond with government of Indonesia (Ministry of Marine Affairs and

Fisheries, Ministry of Environment and Forestry, Ministry of Finance, Financial Services Authority, Indonesia Environment Fund, Ministry of National Development Planning, Coordinating Ministry for Maritime Affairs and Investment), Bank Indonesia, Philanthropy, IUCN and Civil Society Organizations.

Cross sectoral collaboration has been strengthened during design phase by organizing initial Coral Bond Workshops bringing representatives of MMAF, CMMAI, BAPPENAS, IEF, Provincial Marine and Fisheries Department (DKP) in September 20th and December 18th 2023 and February 14th and 15th 2024.

In addition, field surveys in each target MPA were conducted by World Bank and IUCN experts between February 19 and 26, 2024. The objective of the study was to conduct an initial benchmarking assessment of four MPAs against the IUCN Green List to understand their existing level of alignment. This study used qualitative data collected through presentations, interviews, group discussions and town halls and a survey was used to understand the relationship between existing management activities and the requirements of the 17 IUCN Green List Standard criteria. List of all stakeholders consulted during the field mission is presented below.

<b>MPAs</b>	<b>Consultation Date</b>	<b>Stakeholders</b>
KKD Raja Ampat	Feb 19-20th,2024	UPTD-BLUD KKD Raja Ampat; DKP Kab. Raja Ampat; Satker of Marine and Fisheries Resources Surveillance (PSDKP) Sorong; Provincial Tourism Department; Coast Guard; Marine Police; Conservation International; YKAN; Papua University; Papua Sea Turtle Foundation; Molobin Raja Ampat (Women Divers Community); Homestay & Resort Association in Raja Ampat; Community of Guardians of the Sea; Village and Indigenous Peoples Leaders; Maya customary council; and MSMEs groups (Arborek & Piaynemo).
KKN Raja Ampat	Feb 21-22th, 2024	LPSPL Sorong; DKP Sorong; Conservation International; YKAN; and Indonesia Sea Turtle Foundation
KKN Savu Sea	Feb 24-25th,2024	BKKPN Kupang; DKP NTT; DKP Kab. Kupang; NTT Marine Conservation Council; Provincial Tourism Department; Satwas of Marine and Fisheries Resources Surveillance (PSDKP) Kupang; BPSPL Denpasar; YKAN; WWF; YAPEKA Foundation; Nusa Cendana University; Muhammadiyah Kupang University; Krisnadwipayana Kupang University; Marine and Fisheries Polytechnic; Community of Guardians and Love of the Sea; Torusim Awareness Groups; MSMEs groups led by women; PT TOM (pearl aquaculture); PT. PLN (power plant).

KKD Alor	Feb 26-27 <sup>th</sup> ,2024	UPTD Alor; Bappelitbang Alor; DKP Kab. Alor; Provincial Tourism Department; Tribuana University; Coast Guard; Marine Police; Village and Indigenous Peoples Leaders; MPA collaboration forum; WWF; Thresher Shark Indonesia; Taka Foundation; Teman Laut Indonesia Foundation; POKMASWAS groups; CV. Tidayona (fisheries processing business); PT. TOM and PT CIB (pearl aquaculture); Alor Tourism Aliance (ABA); and MSMEs Groups led by women (fisheries; aquaculture and tourism business).
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**8 Annexes**

**Annex A: Financing Tables**

**8.1 Is the proposed GEF financing (including the Agency fee) in line with GEF policies and guidelines? Are they within the resources available from (mark all that apply):**

**STAR allocation?**

Secretariat's Comments NA

Agency's Comments

**Focal Area allocation?**

Secretariat's Comments NA

Agency's Comments

**LDCF under the principle of equitable access?**

Secretariat's Comments NA

Agency's Comments

**SCCF A (SIDS)?**

Secretariat's Comments NA

Agency's Comments

**SCCF B (Tech Transfer, Innovation, Private Sector)?**

Secretariat's CommentsNA

Agency's Comments  
**Focal Area Set Aside?**

Secretariat's CommentsEs: NGI.

Agency's Comments  
**8.2 Is the PPG requested within the allowable cap (per size of project)? If requested, has an exception (e.g. for regional projects) been sufficiently substantiated?**

Secretariat's CommentsNA

Agency's Comments  
**8.3 Are the indicative expected amounts, sources and types of co-financing adequately documented and consistent with the requirements of the Co-Financing Policy and Guidelines?**

Secretariat's Comments  
[Additional Comments 04/02/2024](#)

[Co-financing of IBRD is not documented ? we would like to see project documents that have US\\$ 5M in loans for the recipient of the bonds.](#)

Agency's Comments  
[Additional comments 4/16/2024](#)

[Thank you. We have added this information in the portal as well as the revised PCN.](#)

3/11/2024

Thank you

**Annex B: Endorsements**

**8.4 Has the project been endorsed by the country? (ies) GEF OFP and has the OFP at the time of PIF submission name and position been checked against the GEF database?**

Secretariat's Comments Please submit a signed Letter Of Endorsement (LOE) from the GEF Indonesia OFP. Please note: NGIs don't require LOEs in the cases where the project beneficiaries are i.) *exclusively private sector actors; or ii.) public sector entities in more than one country.* The beneficiaries of this NGI proposal fit into neither of those categories, thus an LOE is required. The letter from the GOI that was submitted as part of the NGI proposal package is not signed by the OFP, therefore is not an LOE. Please note: *the footnote in the GEF-8 LOE template is a requirement and should remain in the LOE for signature by the OFP.*

Agency's Comments

4/16/2024

LOE is uploaded in the portal

3/13/2024

LOE will be shared with GEFSEC by the end of this week (Friday March 15th)

**Are the OFP endorsement letters uploaded to the GEF Portal (compiled as a single document, if applicable)?**

Secretariat's Comments

See above. LOE required.

Cleared

Agency's Comments

4/16/2024

LOE is uploaded in the portal

3/13/2024



LOE will be shared with GEFSEC by the end of this week (by Friday March 15th)

**Do the letters follow the correct format and are the endorsed amounts consistent with the amounts included in the Portal?**

Secretariat's Comments

See above. LOE required.

Agency's Comments

4/16/2024

LOE is uploaded in the portal

3/13/2024

LOE will be shared with GEFSEC by the end of this week (by Friday March 15th)

**8.5 For NGI projects (which may not require LoEs), has the Agency informed the OFP(s) of the project to be submitted?**

Secretariat's Comments

An LOE will be required. The letter from the GOI that was submitted as part of the NGI proposal package is not signed by the OFP, therefore is not an LOE.

Agency's Comments

4/16/2024

LOE is uploaded in the portal

3/13/2024

LOE will be shared with GEFSEC by the end of this week (by Friday March 15th)

**Annex C: Project Location**

**8.6 Is there preliminary georeferenced information and a map of the project's intended location?**

Secretariat's Comments Yes

Agency's Comments

3/11/2024

Thank you

**Annex D: Safeguards Screen and Rating**

**8.7 If there are safeguard screening documents or other ESS documents prepared, have these been uploaded to the GEF Portal?**

Secretariat's Comments Yes

Agency's Comments

3/11/2024

Thank you

**Annex E: Rio Markers**

**8.8 Are the Rio Markers for CCM, CCA, BD and LD correctly selected, if applicable?**

Secretariat's Comments Yes

Agency's Comments

3/11/2024

Thank you

## **Annex F: Taxonomy Worksheet**

### **8.9 Is the project properly tagged with the appropriate keywords?**

Secretariat's Comments Yes

Agency's Comments

3/11/2024

Thank you

## **Annex G: NGI Relevant Annexes**

**8.10 Does the project provide sufficient detail (indicative term sheet) to take a decision on the following selection criteria: co-financing ratios, financial terms and conditions, and financial additionality? If not, please provide comments. Does the project provide a detailed reflow table to assess the project capacity of generating reflows? If not, please provide comments. Is the Partner Agency eligible to administer concessional finance? If not, please provide comments.**

Secretariat's Comments

- 1) As the KPIs for the bond success payment will be revised, please include the information in the termsheet with the terms for third party verification and methodology for monitoring and evaluation.
- 2) Please update the use of proceeds into the specific activities.
- 3) Please update the reflow table template with the latest version.  
<https://www.thegef.org/documents/second-call-proposals-gef-8-blended-finance-global-program>

### **Additional Comments 04/02/2024**

- 1) Additionality of this financing is not explained: why additional 10M in diverted coupons will be enough to complement LAUTRA efforts?
- 2) Please provide a generic payoff of the bond. Tranches can be generic and subject to further development ahead of PAD

- 3) Please explain how IBRD co-financing will be structured.
- 4) Please confirm and state that the 3<sup>rd</sup> party verifier will be independent from IUCN.
- 5) In the termsheet section ?Financing Instruments: please delete grant in parenthesis. This financing is requested under the non-grant window, and this would be contradictory.
- 6) Are observations required on an annual basis or only at maturity? Bondholders are likely to request bond valuations before maturity date and interim observation dates need to be built in.

4/23/24:

1- As per comment in the NGI financial justification, if a 2% fixed coupon is offered what is the risk a bondholder is taking for which the additional outcome payment is needed? Please explain, and quantify.

2- Not addressed in the documents, We need the generic payout of the bond as part of the financial structure and as part of the termsheet, please add.

3- Cleared in the Component section of the PCN.

4- Cleared, please state that independence from IUCN in the World Bank documents and the termsheet.

5- Cleared.

6- Please add the details provided in your answer in the termsheet.

4/29/24

1- Partially cleared ? There should be a paragraph of financial additionality in the Termsheet that summarizes the answer provided here: In the proposed bond structure investors will forgo a portion of guaranteed World Bank coupons which will be directed to finance the project. This is a variation from the Rhino Bond, where 100% of investors coupons were directed to the project. In return investors will receive a fixed coupon e.g. 2% p.a. which will be lower than ordinary World Bank coupons (which are currently 4.5% to 5% p.a.) plus an outcome payment in return for the portion of the ordinary World Bank coupons given up by investors. Given the current higher interest rate environment compared to when the WCB was issued, this feature (with a smaller than ordinary World Bank fixed coupon) will make the bond more marketable to potential investors.

2- Cleared.

4- Cleared.

Additional comment: please delete "grant" from the termsheet in the PAD and make sure both termsheets are consistent with the provided comments.

## Agency's Comments

5/2/2024

1. The following text has been added to the termsheet:

In the proposed bond structure investors will forgo a portion of the normal World Bank coupon, which will be directed to finance the project. This is a variation from the Rhino Bond, where the PV of the entire bond coupon was directed to the project upfront. For this bond, investors will receive a guaranteed fixed coupon [e.g. 2%-3% p.a.] which will be lower than ordinary World Bank coupons for the targeted maturity (which are currently 4.5% to 5% p.a.), plus an outcome payment linked to project success. Under a maximum success scenario, investors would receive a return that is appreciably higher than the return put at risk, for taking exposure to the project. This approach will make the bond more marketable to potential investors, particularly in the higher interest rate environment today than prevailed for the Rhino bond, and it will support a larger bond size.

-- "Grant" has been removed from the termsheet both in the PIF and the WB PCN. The termsheets are now the same in both documents.

## Additional comments 4/25/2024

1. 2% justification ? interest rates have risen significantly since the Rhino Bond was issued (2022), when they were in the region of 2%. Today, "plain vanilla" bonds are in the range of 4.5- 5% and above. Given that this is an innovative instrument focusing on an underserved market segment (SDG-14), where there are few precedents, it will be challenging to convince investors to place the full 4.5% or 5% of their returns at risk. Based on the proposed structure, they will be placing between 2.5 or 3% of the returns at risk, which is a higher percentage at risk than the Rhino Bond.

2. We have included the draft Coral Bond Payment Schedule for Metrics table in the Justification of Financial Structure section, in the termsheet in the PIF and PCN.

4. Thank you. This has been added in the PCN and the PIF.

6. Thank you. This has been added in the PIF/termsheet and the PCN.

## Additional Comments 04/16/2024

1) LAUTRA aims to improve MPA management effectiveness in line with the Government of Indonesia's existing EVIKA scorecard. The project places a priority focus on strengthening institutional capacity and governance frameworks. In comparison, the Coral Bond project aims to accelerate MPA management effectiveness beyond EVIKA, and in line with global best practice. This is reflected in two central elements of the Coral Bond project's design: (i) the setting of measurable, MPA-level biophysical targets

(something that is not currently mandated in Indonesia's MPA governance frameworks); and (ii) the identification and mitigation of specific threats (again, something that is not currently tracked in the Government of Indonesia's MPA management reporting, and consequently is not addressed by the LAUTRA project). The Coral Bond project is designed to maximize the impact of the US\$10 M investment. It does this via two strategies. First, by leveraging LAUTRA investments into the enabling environment (e.g., human resource capacity, physical infrastructure and assets, regulatory strengthening, etc.), ensuring that Coral Bond investments are targeted towards works 'on the ground'. And second, by prioritizing investments and actions (and, as a consequence, outcomes) into defined zones within the MPAs (i.e., core zones), thus minimizing the total area.

2) Draft Coral Bond Payment Schedule for Metrics (this is a first draft and would need to be refined during project preparation):

MPA	Live Coral Cover	Reef Fish Biomass	IUCN Green List
	50% GEF [\$6.85M]	50% GEF [\$6.85M]	100% BNPP [\$1.1M]
KKN Laut Sawu	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [\$275k]
KKN Raja Ampat	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [\$275k]
KKPD Raja Ampat	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [ \$275k]
KKPD Selat Pantar	[\$0 - \$0.85M -\$1.71M]	[\$0 - \$0.85M - \$1.71M]	Y/N [\$275k]

#### Assumptions for Outcome Payments

- ? GEF Funding is \$13.7 million evenly distributed across 4 MPAs
- ? BNPP Funding \$1.1 million is linked to achievement of Green List
- ? Full amount of \$14.8 million is used for Outcome Payments

#### Assumptions for Biophysical Metrics

- ? \*Decline in value\* ? payment = \$0
- ? \*Stabilized\* = 50% of corresponding outcome payment [\$0.85 million]
- ? \*Positive Change\* [x%+ over baseline] = 100% of corresponding outcome payment [\$1.71 million]
- \*Defined terms in the agreement\*

#### Assumption for IUCN Green List Metrics

- ? Attains Green List - \$275,000 for respective MPA
- ? Fails to attain Green List - \$0 for respective MPA

3) IBRD co-financing will support Component 1 (US\$4 million) and Component 2 (US\$1 million). IBRD support for Component 1 (\$4 million) has been separated out in Table B. Component 2 has three sub-components which will be financed by IBRD as follows: 1) Project Management (US\$300,000) - this is reflected under PMC in Table B 2) Monitoring and Evaluation (US\$300,000) - this is reflected under Monitoring and Evaluation in Table B, and 3) Capacity Building, coordination, and knowledge management (US\$400,000) - this is reflected under Component 2 in Table B. Please also see the project financing table provided in response to another comment above.

4) The 3rd party verification is independent from IUCN. The IUCN Green List process provides an assured assessment of performance and expert validation of progress to participating protected and conserved areas, implemented according to the International Social and Environmental Accreditation and Labelling Alliance (ISEAL) codes and principles.

5) Done

6) While the outcome payment will only be triggered at maturity, the project plans to have interim observations of the outcome metrics. As described in the PCN: the project will apply a standardized methodology within all target sites to assess live coral cover and reef fish biomass. Underwater Visual Census surveys will be conducted by trained divers inside and outside the MPAs during year one, year three and year five of the project, with results independently assured and verified via the IUCN Green List audit process. The proposed dates for the interim observations will be refined during project development.

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3/11/2024

Thank you. We have revised the termsheet accordingly.

We also used the updated reflow table.

## 9 GEFSEC Decision

### 9.1 Is the PIF and PPG (if requested) recommended for technical clearance?

#### Secretariat's Comments

No, not yet. Please revise and respond to comments in review sheet.

[Please address additional comments provided as of 04/02/2024](#)

[Please address additional comments provided as of 4/23/2024](#)

[Please address additional comments provided as of 4/29/2024](#)

## Agency's Comments

5/2/2024

Thank you. Additional comments have been addressed.

4/25/2024

Thank you. Additional comments have been addressed.

4/17/2024

Additional comments have been addressed.

3/11/2024

Comments have been addressed.

## 9.2 Additional Comments to be considered by the Agency at the time of CEO Endorsement/ Approval

### Secretariat's Comments

The GEF Secretariat welcomes further engagement during project preparation phase on both the technical and financial elements of the design. Sustainability and scaling-up (financial and biophysical via scaling of approach etc beyond the life of the bond and associated project) are deserving of further attention during project preparation phase. The concept should also consider researching any past MPA baseline data from the Management Effectiveness Tracking Tool (METT) for MPAs.

## Agency's Comments

Thank you. We look forward to engaging with GEF Secretariat during project preparation phase on the technical and financial elements of the design.

### Review Dates

	PIF Review	Agency Response
<b>First Review</b>	<b>1/26/2024</b>	<b>3/13/2024</b>
<b>Additional Review (as necessary)</b>	<b>3/12/2024</b>	<b>4/17/2024</b>
<b>Additional Review (as necessary)</b>	<b>4/2/2024</b>	<b>4/25/2024</b>



	<b>PIF Review</b>	<b>Agency Response</b>
<b>Additional Review (as necessary)</b>	<b>4/30/2024</b>	<b>5/3/2024</b>
<b>Additional Review (as necessary)</b>		<b>5/7/2024</b>