9th EAS Partnership Council Meeting
Agenda Item: 17.0 (Intergovernmental Session)

SUSTAINABLE FINANCING MECHANISM FOR SDS-SEA IMPLEMENTATION

1.0 Background / Context

1.1 The Da Nang Compact, signed by 11 PEMSEA Partner Countries in November 2015, confirmed the commitment of the Partners to take action to develop and implement a sustainable financing mechanism. Specifically, the Da Nang Compact indicates that the sustainable financing mechanism should assist Country and Non-Country Partners to accelerate and secure long-term funding for implementation of the SDS-SEA at the national and regional levels while contributing to regional and global targets for sustainable development of coasts and oceans.

1.2 The PRF has taken up this directive. With financial support from the GEF/UNDP and GEF/World Bank projects, several activities and events related to sustainable financing mechanisms have been developed including:

- research on historical sources and recipients of ICM investment in the region;
- pilot value-chain analyses/business cases for enterprises at the community level (e.g., seaweed farming; hatchery-based grouper aquaculture; Yellowfin tuna handline fishery);
- a regional platform that supports the development of investment projects at ICM sites and promotes linkages to investors;
- organization and conduct of road shows to demonstrate the application of the regional platform in Indonesia, Philippines, and Vietnam (2016)
- co-organization and participation in sustainable financing workshops in Xiamen, China (2016), Colombo, Sri Lanka (2016), and New York, USA (2017)
- initial identification of over 300 potential projects at ICM sites; and
- building partnerships for testing new mechanisms for channeling public and private financing to SDS-SEA implementation.

1.3 Examples of new financing mechanisms, will be covered during the Ocean Leadership Roundtable on 26 July 2017 as part of the 9th EAS Partnership Council. New financing mechanisms to be presented during the Roundtable will include: an “ICM bond”, which could represent a significant new source of financing for SDS-SEA implementation and blue economy projects; blue carbon financing to support the conservation of coastal ecosystems; and establishment of a Sustainable Ocean Investment Ecosystem, including an Ocean Investment Facility and Funds.
2.0 Ocean Investment Facility & Funds

2.1 Over the last 20+ years, the Global Environment Facility (GEF) and other donors have contributed billions of dollars to: (1) support regional scientific assessments; (2) develop regional Strategic Action Programmes (SAPs), including the SDS-SEA; and (3) establish regional institutional mechanisms promoting sustainable development of coastal and ocean ecosystems. However, as recognized in the Da Nang Compact, there is a need for a new financing mechanism to accelerate investments in SDS-SEA implementation, especially among developing countries in the PEMSEA partnership.

2.2 On the positive side, the SDS-SEA is recognized as being science-based, incorporating national, regional and global priorities for sustainable development of coasts and oceans, and approved by 11 national governments as their common platform for action. Such conditions have the potential to reduce investment risks, providing the private sector with more certainty for longer-term commitments and accountability frameworks for sustainable development.

2.3 Thus, the maturity of the SDS-SEA presents a unique opportunity to redirect potentially hundreds of millions of dollars of capital towards blue economy investments. In most cases, the problems are recognized, the technological/industrial blue economy solutions are known and the capital is available and is, in fact, seeking sustainable investments. What is needed are pipelines of bankable investment projects that contribute to the implementation of the SAPs and thereby to sustainable regional economic development.

2.4 Feedback from donors, including GEF, and conservation investment experts is consistently positive on the potential of such an approach. At the same time, PEMSEA’s on-the-ground work in the region under the GEF/UNDP project provides an opportunity for identifying gaps and potential investment projects that could be sourced as bankable investment opportunities.

3.0 What does a regional sustainable financing mechanism look like?

3.1 Based on PEMSEA’s experience and consultations with numerous financial experts, the design of a regional sustainable financial mechanism must simultaneously:

1) provide capital for a range of investments;
2) help project proponents to develop a pipeline of high-quality, bankable projects; and
3) make resources available to support regional institutional coordination supporting governance and investment.

3.2 As such, there are two major components to be considered in the development of a regional sustainable financing mechanism, namely:

1) a pre-investment facility (PIF) to generate a pipeline of bankable projects in the region; and
2) a set of actively managed private ocean investment funds with a broad
mandate to identify and direct targeted investment capital and financial backing to investments that not only have positive social and environmental impact, but can also provide acceptable capital returns to financial backers and investors (referred to hereafter as an Ocean Investment Facility and Fund or OIFF).

4.0 Sectors for Investment Under SDS-SEA

4.1 An assessment of investment needs conducted by the PRF, in collaboration with PEMSEA Country Partners and local governments implementing ICM programs, produced a set of target sectors for potential private investment. This was then validated by research and input from an investment consultant. These sectors include:

- Sustainable ports, shipping and marine transport
- Ecotourism / sustainable tourism
- Marine renewable energy
- Sustainable fisheries & aquaculture and food security
- Pollution reduction and waste management
- Water use and water supply management
- Climate smart development and disaster risk reduction
- Habitat Protection, Restoration and Management
- Ocean-based technology products and services

4.2 To initiate this important work and demonstrate the concept, the PRF has established partnerships with three organizations for pilot approaches to investing in three initial sectors:

1. Water and wastewater investment with ARCOWA SA
2. Protected areas and sustainable marine tourism with Blue Finance
3. Low-carbon and waste management investments with R20 Regions of Climate Action

Each partner brings unique expertise for its sector to identify viable investments, as well as experience linking with investors. These partnerships provide an opportunity to “jumpstart” the process of establishing investment funds and will provide valuable learning for PEMSEA as it continues to establish its capacity for developing investments. The interest by these groups in partnering with PEMSEA also provides further affirmation of the value that PEMSEA can provide in sourcing investment projects supporting SDS-SEA implementation.

5.0 Building a Regional Sustainable Financial Mechanism

5.1 To realize the full potential of a regional sustainable financial mechanism, it will be necessary for the PRF to devote additional time and resources to this activity. Specifically, an Investment Specialist will need to be contracted to provide the necessary expertise and dedicated focus over the next 18 months. Important next steps for the Investment Specialist will include:
a) Outlining the structure for a PIF, including assessment of priority sectors/assets and the relationship between the PIF and various private investment funds;

b) Developing a standardized process to assist countries/local governments to identify and develop pipelines of bankable investment projects;

c) Preparing a full proposal seeking funding to:
   • start-up the PIF; and
   • establish and capitalize funds for the OIFF, targeting for instance the Green Climate Fund for capital. (The minimum capitalization requirement for a single fund is estimated to be US$100 million, to appeal to investors and have a sizable impact on the development of regional ocean and coastal investments.)

5.2 The estimated cost for the PIF design and development work and preparation of a full funding proposal for one sector is US$300K-500K, (see Attachment A, an example of the scoping work needed in one of the sectors included in the OIFF).

6.0 Actions requested of the EAS Partnership Council

6.1 The Intergovernmental Session is invited to consider the efforts being undertaken by the PRF to develop and put in place a sustainable financing mechanism to support and accelerate SDS-SEA implementation, and to provide advice on the following:

a) other ongoing initiatives in the region or elsewhere that are relevant to the PRF's work on developing financing mechanisms;

b) opportunities for identifying investment projects in PEMSEA partner countries falling under the following sectors:
   • Sustainable ports, shipping and marine transport
   • Ecotourism / sustainable tourism
   • Marine renewable energy
   • Food security, sustainable fisheries & aquaculture
   • Pollution reduction and waste management
   • Water use and water supply management
   • Climate smart development and disaster risk reduction
   • Habitat Protection, Restoration and Management
   • Ocean-based technology products and services

c) potential partners/external sources of financing to support the development and start-up of financial mechanisms, including the OIFF.

6.2 The Intergovernmental Session is also invited to consider allocating resources from the PEMSEA Trust Fund as seed funding for the design and development of the PIF and for the preparation of a full funding proposal for capitalization of the OIFF;
and request the PRF to:

a) develop a work program and budget for advancing the PIF development and a full feasibility/resource mobilization phase;
b) seek/confirm additional sources of financing/support to implement the project, as required;
c) with the approval of the Executive Committee on the work program and budget, initiate the project;
d) report back to the next meeting of the EAS Partnership Council on the PIF design and operationalization, and the progress on mobilization of funds to set up and capitalize the OIFF.

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WHY CREATE THE “CLEAN OCEAN FUND”?  

Investing in waste water treatment facilities is profitable. New technologies permit to extract energy, process water and nutrients from waste water streams. These products can be sold. This makes the treatment of wastewater — a service each municipal government should provide to its citizen - a profitable business instead of a service that cost the local government money and needs to rely solely on taxes and tariffs. Waste water treatment combined with extracting the sellable compounds from the waste can provide commercially acceptable returns on investments in waste water facilities that use these latest technologies. The business case has been made and proven to work.

The world’s oceans, seas and coastal waters, and in particular those in SE Asia, are suffering a rapid decline in quality and productivity due to increasing pollution from land-based sources. Untreated municipal and industrial waste water together with nutrients from agricultural runoff are the main causes of this contamination. The decline in marine ecosystem health is directly affecting the rich array of goods and services (e.g., related to fisheries and tourism). These goods and services directly and indirectly contribute to human survival and quality of life, underpinning the well-being of coastal communities and the health of national economies.

With the adoption of the Sustainable Development Goals, the Paris Agreement and the global momentum around sustainable oceans, new opportunities are emerging to address the rapid degradation of marine ecosystems caused by land-based pollution. These opportunities coincide with the emergence of new technologies to turn waste water into new sources of water, energy, fertilizer, and materials. Treating waste water reduces the greenhouse gas emissions related to waste water by at least 65%. Additional reductions in greenhouse gas emissions can be made through energy efficiency measures, using renewable energy and turning waste water treatment plants into bio-energy production cells. Globally waste water accounts for around 4% of greenhouse gas emissions, comparable to the carbon emissions by the airline industry.
Reducing ocean pollution and carbon emissions through advanced waste water treatment is a strong proposition. Combining the public interest of clean oceans and greenhouse gas reduction with business opportunities on resource recovery from waste water forms a powerful basis to mobilize public financing and private investments to reduce land-based sources of ocean pollution and mitigate against climate change. The Clean Ocean Fund provides a new vehicle to accelerate the mobilization of these investments focusing on waste water collection, treatment and resource recovery projects that generate public and private benefits and returns.

Over the last 20 years, the Global Environment Facility (GEF), UNDP, UNEP and other donors have contributed billions of dollars to support regional scientific assessments and develop regional Strategic Action Plans (SAPs) for Regional Seas (RS) and Large Marine Ecosystems (LME) around the world. Today, we have a sound scientific basis and advanced management plans for most of the Regional Seas and LMEs. In addition, regional institutional mechanisms were created to promote sustainable development of coastal and ocean ecosystems.

The maturity of the SAPs presents a unique opportunity to mobilize public and private capital for “blue economy” investments. In most cases, the challenges are recognized, the technological and industrial solutions are known and the capital is available. What is needed now is filling the gap: the lack of pipelines of bankable projects that are able to attract public financing and private investments. The Clean Ocean Fund – Project Preparation Facility is designed to fill this gap.

**HOW WILL THE “CLEAN OCEAN FUND” WORK?**

The Clean Ocean Fund will focus on investments in advanced waste water treatment, and be set-up in the most appropriate jurisdiction. Tranche 1, focused on SE-Asia, will build on the development work carried out under the leadership of Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) over the last two years. (Note: Over time, the Clean Ocean Fund will be established in up to 4 other regions associated with major Regional Seas and/or LMEs that meet the necessary pre-conditions. These regions could include, for example, the Mediterranean, East African Sea, West Africa and the Caribbean).

The Clean Ocean Fund provides a unique opportunity to develop a replicable innovative technical and financial model to accelerate the development of waste water collection and treatment, and the recovery resources from this waste stream. The underlying new technologies and business modalities provide a sound basis for reliable and replicable environmental and financial returns. The Clean Ocean Fund will mobilize the leading edge expertise in innovative advanced waste water treatment technologies focused on recovering valuable resources from the waste streams. The Clean Ocean Fund will develop and spearhead new financial models that access, combine and integrate different sources of financing – including wastewater tariffs, carbon credits, green bonds, and proceeds of the sales of recovered waste stream products. It will further use first loss guarantees available through existing international financial mechanisms. The combination of using leading edge technology linked to multiple income streams and
innovative financing, provide the basis a new model for waste water treatment that can be made profitable and hence attractive for local and foreign investors.

As such, the Clean Ocean Fund is set to initiate the development of a new asset class that will transform investment in pollution abatement and greenhouse gas emission reduction while becoming a building block of creating a circular economy at scale.

**Proposed ACTIVITIES**

**Component 1: Country level diagnostics for selected countries**

The country diagnostics will provide deep insight in:

1.1 the status of waste water collection and treatment in targeted countries, and
1.2 the constraints and opportunities to scale-up waste water collection and treatment in the targeted countries and municipalities.

**1.1 Desk study - Overview of urban and industrial waste water status**

For SE Asia and a subset of the PEMSEA countries, a broad overview of the current situation regarding (advanced) waste water collection and treatment will be prepared. From five countries (Vietnam, Philippines, Cambodia, Thailand, Indonesia), an initial selection of 3 countries will be made based on several simple criteria related to experience, capacity, and interest. For each initially selected country, further work will be done to provide a description of current waste water management and treatment in the leading cities (i.e. > 200,000 population) and industries. This will include a description of the type of urban and industrial waste water that is collected (quantity, quality). In addition, five components - critical for the development of waste water treatment and resource recovery - will be described:

a) the policy, legal, regulatory, institutional and enforcement framework that exist for waste water management and treatment for each selected country;
b) the water and waste water utilities, including any performance benchmarking that has been carried out;
c) the technology context, including existing engineering universities, schools and relevant (local) technology firms;
d) the experience with advanced waste water management (i.e. re-use, energy recovery, efficiency, etc); and
e) the private sector involvement in the water, waste water and waste sectors.

**1.2 Desk study - Overview of the national economy, financial markets and opportunities for FDI**

This desk study will provide a consolidated account of the overall financial and economic situation for each of the selected countries. The purpose of this is to provide a general economic and financial context for attracting Foreign Direct Investment for the water sector more broadly and for advanced waste water treatment and resource recovery in particular. Furthermore, information will be provided about current rules and regulation, opportunities and constraints on FDI together with examples of ongoing FDI projects, including in the water sector. An overview of current relationship with International Finance Institutions and bi-lateral donors will be provided, including in relation to their engagement in the water and waste water sectors.
Component 2: Project pipeline scoping in selected countries

2.1 Set-up of scoping phase
A review of the existing PEMSEA initial pipeline will be carried out in cooperation with PEMSEA national focal points and network of local governments in selected countries. From this and other inputs, an initial long-list of advanced waste water treatment project ideas and opportunities in selected countries covering both urban and industrial waste water will be prepared. In addition, work will be done to assess the potential for commercially viable “turning wastewater into a resource” opportunities using advanced waste water treatment and resource recovery projects.

2.2 Scoping of partnership development
Further scoping will be carried out through establishing contact with national and local governments in the three selected countries. These discussions will be carried out with PEMSEA focal points (local, national, regional) and other relevant national and sub-national governmental entities, including local authorities and the broader local public and private sector. Work will further be done to develop relationships with the private and technology sector focusing on waste water solutions, consultancy, technology and financing. At the national level, discussion will be entertained with International Finance Institutions, bi-lateral donors and other (private) financial actors potentially interested to engage in the Clean Ocean Fund.

2.3 Lead Investment Projects ‘Waste Water as a Resource’ - Scoping
In an early stage, a basic description for a ‘generic’ Advanced Waste Water Treatment and Resource Recovery investment project will be prepared. This will form a basis for scoping the potential for these kind of projects, in country. In addition, several missions in the three initially selected countries will be carried out involving regional and foreign experts. Based on the information obtained, three lead investment projects will be defined and described (preferably one per country). Further discussions with government and private sector representatives will be focused on mobilizing initial support from national and local government and the business community. This could focus on technical and political support, co-funding interest or ability to provide government guarantees for future FDI in waste water and resource recovery projects.

Component 3: Project Level Technology and Fund Modalities

This Component provides depth to the technical focus, and a preliminary description of the Clean Ocean Fund modalities.

3.1 Clean Ocean Fund – Project’s Technical Focus
This component focuses on a preliminary description of the technology behind Advanced Waste Water Treatment and Resource Recovery. A preliminary business-case for “waste water as a resource” together with potential operational modalities will also be prepared. In addition, a brief overview of the latest technology, its track-record of delivering results and its relevance for the SE Asia countries will be prepared. An overview of leading
technology and solution providers in advanced waste water treatment and resource recovery will also be prepared. This will provide a basis to start defining the potential modalities of a “technology partners pool” with an initial list of companies with an interest in and capacity to contribute.

3.2 Clean Ocean Fund - Preliminary description of Fund modalities
This work will focus on providing a preliminary description of the Clean Ocean Fund – SE Asia. With a clear definition of its focus on: a) utilities and industry, b) waste water as a resource, and the three initial countries involved, there is a sound basis to attract potential investors. However, a preliminary description is needed of the Fund governance, management, potential geographic location etc. Also, a preliminary definition of the Clean Ocean Fund selection criteria and ESG safeguards will be provided. Defining some of the key-elements of the Clean Ocean Fund modalities at this pre-feasibility stage forms an important basis to seek further input from potential partners and investors.

Component 4: Clean Ocean Fund – Full Feasibility Phase: Resource mobilisation
Where Component 1 to 3 focuses on pre-feasibility and is estimated at 500,000 US$, further work is needed to come to deal flows, attract the water sector partners, financial institutions and investors, define the institutional and financial set-up for each individual investment case, and set up and capitalize the first Clean Ocean fund in the Seas of East Asia Region. To do this, approximately USD 5 million needs to be mobilized on the basis of grants or early seed funding. This funding can be re-paid to the original donor / angel investor upon the financial close of the fund. It can also be re-used to establish a consecutive pipeline of projects.

Component 4 focuses on mobilizing the additional resources needed for a full feasibility phase and includes the development of:
4.1 Strategic Communications
4.2 Proposal preparation – Full Feasibility Phase
4.3 Capitalization of the fund

4.1 Strategic Communications
To be able to raise early seed capital, it is critical to develop an effective communications strategy for the Clean Ocean Fund. This includes the preparation of collateral materials (i.e. website, brochure, identity, proposal look and feel etc.) and the preparation of articles, blogs, etc. on Clean Ocean Fund subject areas. It also requires a clear description of the key target audiences and the kind of information required to bring them along in the process and fully engage them in the further development and set-up of the Clean Ocean Fund.

4.2 Proposal preparation – Full Feasibility Phase
Based on the information gathered, the early pipeline defined and the input from a wide range of stakeholders, a full proposal for the Clean Ocean Fund – Full Feasibility Phase will be prepared. This proposal is oriented towards mobilizing USD 5 million for the set-up of the Clean Ocean Fund. The proposal includes, amongst others, a description of the work that needs to be done during the Full Feasibility Phase, including:
- Definition of Clean Ocean Fund structure
• Identification of the project pipeline of the Clean Ocean Fund
• Scoping of the Clean Ocean Fund legal, financial and institutional arrangements
• Business modalities of the Clean Ocean Fund (for different regions, legal entities, ownership etc)
• Creation of a Clean Ocean Fund – investment brochure
• Mechanisms to prepare proposal for other LMEs – similar to PEMSEA proposal

4.3 Capitalization of the Clean Ocean Fund
Having developed a sound basis working through Component 1 to 4, a major effort is needed to mobilize financial resources from donors, financial institutions and private investors. There is a great potential to involve a variety of financial actors, including for example, the GEF, GCF, World Bank, Asian Development Bank, bilateral donors from countries such as France, Netherlands, Belgium, Japan, and Norway, and private investors such as pension funds, family offices, infrastructure funds etc. Mobilizing these actors, however, requires a concerted action over a significant period of time and will leverage many of the existing relationships that the partners involved do bring.

Partners
The partners involved in the proposed partnership include PEMSEA, ARCOWA and V. Vandeweerd (see Annex 1). Each of the partners bring a unique set of competencies and relationships to the partnership.

Duration
Period: 1 September 2017 – 31 August 2018 (12 months). The timeframe indicated is needed for this scoping / pre-feasibility phase. Annex 2 provides an overview of the various phases in the development of the Clean Ocean Fund.

Budget
USD 496,500 (pre-feasibility) (Details provided in Annex 3)
Funding required to leverage USD 5 million, which will be used as seed funding to leverage USD 100 million investment in waste water treatment and resource recovery in SE Asia; funding will complement ongoing GEF and donor funding, and various new donor exit possibilities are envisaged.

Contact
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Veerle Vandeweerd at veerle.vandeweerd@gmail.com
Annex 1. Information on the partnership proponents

Dr. Ger Bergkamp, President and CEO, ARCOWA SA, Switzerland

Ger Bergkamp is the President and CEO of ARCOWA, an advisory company focusing on strategic investments to address water scarcity, to recover resources from waste water and to use green infrastructure for water management. Previously, he was the Executive Director of the International Water Association (the international network of water professional with app. 10,000 members in 130 countries), Director General of the World Water Council (the lead organisation behind the tri-annual World Water Forum), and Head of the Water Programme at IUCN – The International Union for the Conservation of Nature.

Dr. Bergkamp is a recognized leader in water and environment issues with over 25 years of experience in sustainable development focusing on solutions for world-wide water challenges. He has supported colleagues in over 40 countries, including in SE Asia, as a director in international organisations, programme coordinator, scientist and as a private consultant.

Dr. Bergkamp’s experience in water and environmental issues include, amongst others, local water management, (intern)national water policy and applied scientific research. His special areas of expertise include optimizing water resources for human and environmental needs, adaptation to climate change, and management of large scale infrastructure in river basins. Most recently he has focused on urban water management, water – energy optimization and utility management.

Dr. Bergkamp has been instrumental in developing world-wide programmes on water management and building capacity to for local change processes. He is the author of several books and reports and speaks and facilitates regularly at international events focusing on transitions and innovations in water management. In doing so, he helps to create strategic insight and foresight for global water security.

Dr. Veerle VandeWeerd

Dr. Veerle Vandeweerd has more than 25 years of experience in developing and implementing global, national and local environmental policies and programs, including 20 years in the United Nations system. Her work spans diverse fields -- from integrated sustainability assessments, green economic transformations and global environmental norm setting to financial, regulatory and institutional capacity building in over 160 countries. She currently is leading an entrepreneurial initiative she co-founded that involves new financial mechanisms to redirect major private flows to sustainable investments worldwide. She also is the policy director of the Global Science Technology and Innovation Conference Series (www.gstic.org), geared to support with the best technological innovations, national and international policy development in the field of sustainable development.

During her career at the United Nations, Dr Vandeweerd held various positions, beginning with the UN Environment Programme where she launched and directed the Global Environment Outlook and culminating in the UN Development Program as director of the...
Environment and Energy Division with an annual turnover of 1 billion dollars and 300 staff members. She was the Special Advisor to the UN Global Compact, the leadership platform for responsible corporate policies and practices, and currently serves as a board and/or advisory member of several international and national organisations, including CCICED (China). Previous to the UN, she taught at the University of Zambia, conducted research on African Sleeping sickness, and headed the environmental reporting department in the Flemish Government, Belgium.

A Belgian national, Dr Vandeweerd speaks Flemish, English, and French. When not traveling for her work, she lives in New York and Belgium. She received her doctorate in Biochemistry from the University of Antwerp, Belgium, and a master in Chemistry from the University of Gent, Belgium.
**Annex 2.** Clean Ocean Fund – Development phases (including current phase proposed)

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<th>Phase</th>
<th>Components</th>
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<tr>
<td><strong>Early Stage Preparation</strong></td>
<td>Context review</td>
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<td>Initial consultations</td>
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<td><strong>Pre-Feasibility / Scoping</strong></td>
<td>Project definition and sponsor mobilisation</td>
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<td>Country level diagnostics</td>
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<td>Project level and fund modalities</td>
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<td>Project pipeline scoping</td>
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Annex 3. Budget (USD)

**Component 1:** Country level diagnostics for selected countries  
77,000

**Component 2:** Project pipeline scoping in selected countries  
214,000

**Component 3:** Project Level Technology and Fund Modalities  
93,500

**Component 4:** Clean Ocean Fund – Full Feasibility Phase: Resource mobilisation  
112,000

Grand Total  
496,500

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