



Gold Standard
for the Global Goals

TEMPLATE

FUND DESIGN DOCUMENT

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Summary:

This document details the Impact Strategy of the Fund and contains the following Sections:

- Key Fund Information
- SECTION A - General description of the Fund
- SECTION B - Description of the Monitoring, Reporting and Verification (MRV) plan and Data Management system
- SECTION C - Governance
- SECTION D - Duration of the Fund

The Fund Manager must complete all sections and maintain all necessary supporting records and evidence.

This document (in word) and supporting records and evidence will be subject to third party assessment, along with other required documents listed below:

- [Cover Letter](#)
- [Terms and Conditions](#)

KEY FUND INFORMATION

Name of the Fund:	Subnational Climate Fund
Name of Enterprise managing the Fund:	Pegasus Capital Advisors
Version of Fund-DD:	1
Date of Version:	DD/July 2023
Host Country (ies) Targeted:	<p><u>Africa</u>: Burkina Faso; Cameroon; Côte d'Ivoire; Democratic Republic of the Congo; Gabon; Guinea; Kenya; Mali, Mozambique; Nigeria; Rwanda; Senegal; South Africa; Togo; Uganda</p> <p><u>Asia- Pacific</u>: Cambodia; Fiji; Indonesia; Myanmar</p> <p><u>Latin America and the Caribbean</u>: Bahamas; Brazil; Chile; Costa Rica; Dominica; Dominican Republic; Ecuador; El Salvador; Guatemala; Haiti; Honduras, Jamaica; Mexico; Panama; Uruguay</p> <p><u>Mediterranean</u>: Albania; Jordan; Lebanon, Mauritania; Montenegro; Morocco; North Macedonia; Tunisia.</p>
Fund-level Sustainable Development Impact Goals <i>A minimum of 3 SDGs - one of which must be SDG 13</i>	SDG 13: Climate Action SDG 5: Gender Equality SDG 8: Decent Work and Economic Growth SDG 11: Sustainable Cities and Communities

SECTION A. GENERAL DESCRIPTION OF THE FUND

A.1. Purpose and general description of the Fund

>> Describe the Fund including as a minimum:

- (i) the SDG Impact Goals that the Fund seeks to achieve
- (ii) how the fund will meet the established Impact Goals
- (iii) how the fund will monitor progress towards its Impact Goals
- (iv) how the fund will adjust in the interim if it is not on track to meet its Impact Goals
- (v) a statement confirming the Fund will focus on positive SDG impacts while addressing any negative impacts that are expected, or may emerge

The Subnational Climate Fund ('SCF' or the 'Fund') aims to invest in mid-size low-carbon and climate resilient infrastructure to:

- mitigate climate change and strengthen adaptive capacities (SDG 13)
- improve livelihoods and enhance prosperity in emerging markets and developing countries (SDG 8)
- transform lives in local economies and promote inclusion by promoting women's economic empowerment (SDG 11 & 5)

To meet its impact goals, SCF has developed key targets and outcomes that build the foundation of its investment thesis. As part of its investment strategy and sector allocation, four main sectors were identified that can significantly contribute to the desired SDG impact.

Table 1: SCF Impact Thesis

Sectors	Impact outcome	Impact targets	Impact Goal
Sustainable Energy Solutions: <ul style="list-style-type: none"> ▪ Solar photovoltaic farms ▪ Energy storage solutions ▪ Wind parks ▪ Biomass power plants ▪ Energy efficiency solutions 	<ul style="list-style-type: none"> ▪ Enable access to clean and affordable energy ▪ Reduce CO₂ emissions and pollution ▪ Create local jobs ▪ Support education and economic growth through reliable electricity ▪ Provide access to clean water ▪ Combat domestic and ambient pollution ▪ Support a circular economy and sustainable use of resources ▪ Enhance resilience and reduce vulnerability to drought, pests, diseases and other climate-related risks and shocks ▪ Improve urban livelihoods ▪ Produce more and better food to improve nutrition security, 	<ul style="list-style-type: none"> ▪ SDG 13: Mitigate or avoid 80m tCO₂e over the next 20 years ▪ SDG 5 & 8: Create 20'000 jobs, 10'000 jobs for women (min. 4'000) ▪ SDG 11: 17m citizens with improved living conditions 	<ul style="list-style-type: none"> ▪ SDG 13: Mitigate climate change and strengthen adaptive capacities ▪ SDG 8: Improve livelihoods and enhance prosperity in emerging markets and developing countries ▪ SDG 5 & 11: Transform lives in local economies and promote inclusion by promoting women's economic empowerment
Waste & Water Management: <ul style="list-style-type: none"> ▪ Waste sorting, treatment, recycling ▪ Composting facilities ▪ Proven conversion technologies ▪ Water & Sanitation 			
Urban Development Solutions <ul style="list-style-type: none"> ▪ Climate infra and urban transport ▪ Digital infrastructure ▪ Smart city development ▪ Sustainable tourism infrastructure 			
Sustainable Agriculture:			

<ul style="list-style-type: none"> ▪ Sustainable high value crop agriculture ▪ Integrated food and agri value chains ▪ Agriculture technology or agritech ▪ Controlled environment agriculture 	<p>increased resilience, and boost incomes</p> <ul style="list-style-type: none"> ▪ Pursue lower emissions for food produced ▪ Provide human well-being and biodiversity benefits 		
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Creating long-term value by considering impact on the people and planet is the starting point of the Fund’s investment strategy. Investments are selected individually and seek measurable positive social, environmental, and economic impact. ESG and impact considerations are integrated throughout the entire investment cycle:

- **Screening Stage:** Every investment opportunity undergoes significant screening to identify how or whether it fits within SCF’s investment themes and to ensure that the investment opportunity is not on the SCF exclusion list and complies with eligibility, sector-specific, and the Fund’s proprietary impact criteria aligned with the Fund’s targets. This also includes a first assessment of how and to what extent target impacts can be achieved by consulting Gold Standard and other approved methodologies of SDG impact quantification. Criteria are also aligned with best practice standards such as IFC Performance Standards, Equator Principles, and the GS4GG.
- **Due Diligence Stage:** We conduct comprehensive due diligence on ESG risks and opportunities and potential impacts on sustainable development (see also A.3. Due diligence processes deployed by the Fund prior to investment decisions). Technical consultants may be engaged for additional expertise.
- **Investment Decision Stage:** Material findings from the screening and diligence stages help identify ESG performance gaps, enhance practices, and address positive and negative impacts which result in an ultimate investment decision.
- **Investment Agreement Stage:** Legal investment agreement(s) incorporate ESG and impact criteria, as appropriate. This can include ESG action plans to close ESG performance gaps, ESG and impact targets, and requirements to report on performance.
- **Holding, Monitoring & Reporting Stage:** We measure and monitor the investee’s ESG and impact performance timely to gather insights, and report back to our investors on a regular basis. In addition, we engage with investee companies to improve their ESG and impact performance over time.
- **Exit Stage:** We are convinced that assets which are optimized operationally, financially, as well as for ESG and impact aspects are more attractive to potential future owners and yield better exit results while also attracting a broader set of potential exit partners.

Monitor progress and corrective actions

To monitor progress towards the impact goals, the Fund conducts the following activities:

- Frequent qualitative and quantitative measurement of the sustainability outcomes and impact of investments in accordance with internationally recognized standards and frameworks
- Structured and ongoing engagement with investee to enhance positive SDG impact and take corrective actions if ESG and SDG performance is not on track
- Ongoing monitoring and regular reporting (e.g. annual performance reports)
- Verification and Certification of ESG and SDG performance by third-party

Based on the activities described above, SCF seeks to enhance positive SDG impact while addressing any negative impacts that are expected, or may emerge.

A.2. Classification of Fund Objectives/Target Sectors

A.2.1. Describe the sectors, technologies and/or measures to be employed and/or implemented by the investments in the Fund.

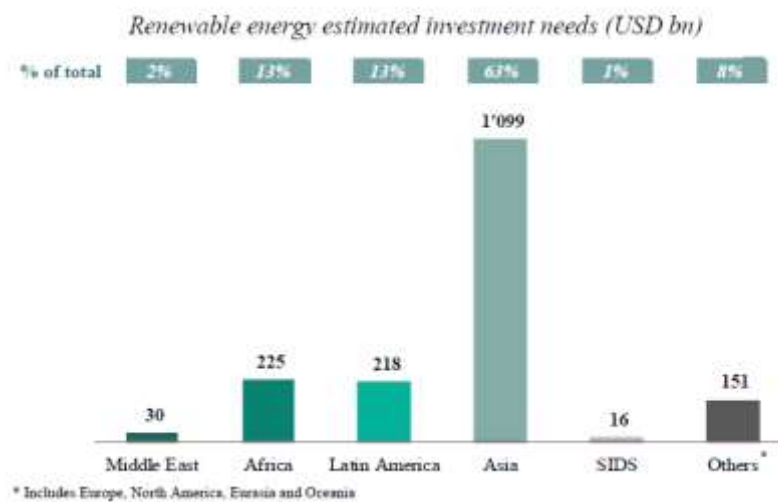
>> Include all information necessary to understand how the sectors, technologies and/or measures will achieve the Fund's objectives

SCF believes that it has identified several horizontal climate infrastructure sectors that collectively provide the most critical public services and support in sustainable economic transition while providing attractive return profiles.

In alignment with its impact vision, SCF's investment strategy is focused on the creation of measurable positive impacts by investing into climate resilient infrastructure and improved ecosystems. Target sectors include: 1) Sustainable Energy Solutions, 2) Waste & Water Management, 3) Urban Development Solutions, 4) Sustainable Agriculture. Please refer to Table 1 for the sub-sectors and technologies.

1) Sustainable Energy Solutions

The total renewable energy investment needs of an estimated USD 1,739 billion by 2030 are heavily driven by the main developing regions.¹ It needs to be recognized that especially the reliability of the national state grids is often a limiting factor for large renewable energy projects (100MW+)². Mid-sized solar, wind, small-scale hydro and biomass plants can be deployed to overcome that limitation.



¹ Untapped potential NDCs, IRENA, 2017

² World Bank, Grid Integration Requirement for Variable Renewable Energy, 2019

Renewable energies form the cornerstone of the world’s climate mitigation strategy. They represent a safe, reliable, affordable and immediately deployable pathway to a low-carbon future that can achieve over 90 per cent of the energy-related CO₂ emission reductions needed to meet climate goals³. Avoiding the worst effects of climate change will require the world to source at least 85 per cent of global power from renewables, with a minimum of two thirds of total energy from renewable sources – wind, solar, geothermal, hydro, bioenergy and the burgeoning tidal technology – by 2050⁴. Shifting from carbon-intensive energy to sustainable sources of energies can be considered a major societal and economic change and will not only be achieved with new renewable energy production capacity but will be also supported by energy efficiency and energy storage solutions. The Fund’s approach to energy is seeking to implement and promote adequate and efficient production and use of renewable energies.

GHG emissions are evidently greatly reduced with renewable energies, especially in the cases of Solar PV, wind, and waves⁵:

Energy source	Median lifecycle emissions (gCO ₂ eq/kWh)
Coal	820
Gas	490
Biomass ⁶	230
Geothermal	38
Hydropower	24
Solar PV - rooftop	41
Solar PV – utility	48
Wind onshore	11
Wind offshore	12
Waves	17

In addition to mitigating climate change, the energy transition can also deliver long-term economic and social benefits. International Renewable Energy Agency’s *Global Energy Transformation: A Roadmap to 2050* shows that it would boost global GDP by one per cent by 2050 and create millions of new jobs. This is especially the case in developing countries where the global demand for energy is not met yet.

2) Waste and Water Solutions

Waste and water solutions include a multitude of potential project types and business models along the waste and water value chains. Most commonly, waste and water management solutions are expected to refer to recycling and waste valorization, that the Fund believes bring the most economical

³ International Renewable Energy Agency, 2019

⁴ International Renewable Energy Agency, 2019

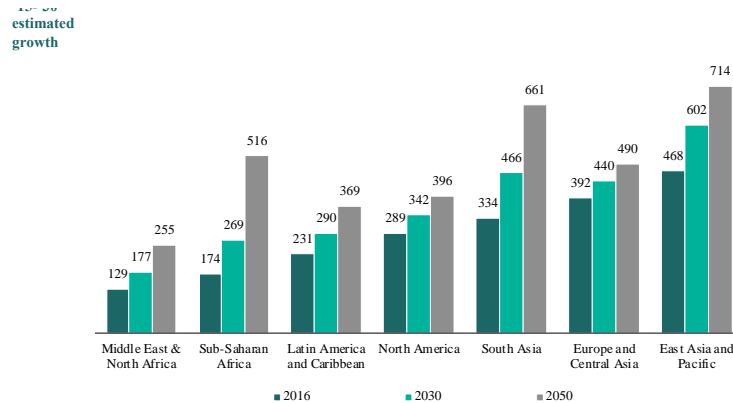
⁵ IPCC Working Group 3, 2007

⁶ Median emissions take into account old wood fuel systems, modern systems, foreseen for SCF are closer to the min emission of 130.

value and are the most sustainable way to manage waste and treat water. Material Recovering Facilities (MRF), composting plants, recycling and valorization units, and waste to energy plants are expected to constitute the majority of the investments in that sector.

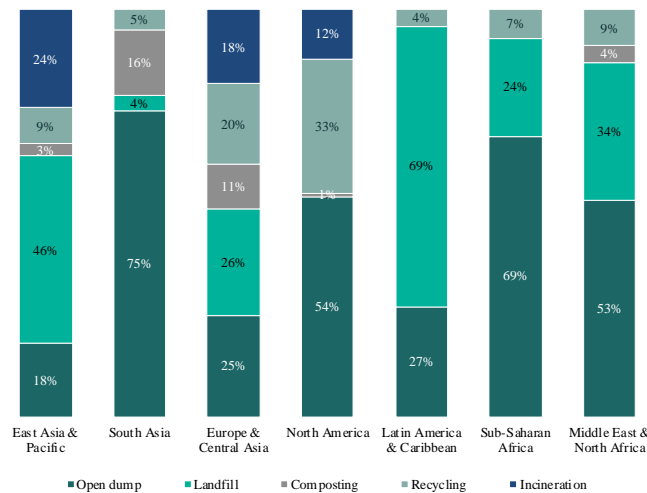
Increasing urban populations and tourism are causing an increasingly critical need for waste management solutions in developing countries. The absolute amount of waste generated as well as current and prospective growth in generation is particularly severe in the Fund’s target geographies, causing environmental as well as local health and safety concerns⁷ :

Projected municipal solid waste generation (in million tons per year)



Particularly open dumping practices in many developing regions and increasingly large landfills with limited regulation have contributed to waste becoming one of the major contributors to greenhouse gas (“GHG”) emissions in various parts of the world and can be observed to be particularly predominant in the Fund’s target regions, as seen in the chart below.

Waste composition and disposal by region



Roughly half of all solid waste in the world is organic⁸, which decomposes into methane (CH4) and other potent GHGs. GHG emissions from solid waste in the world have been evaluated at 1300 MtCo2-eq in 2005⁹. Keeping these materials out of dumps and landfills and using them productively

⁷ What a Waste 2.0, World Bank, 2018

⁸ What a Waste 2.0, World Bank, 2018

⁹ IPCC, AR4, Working Group 3, 2007

also relieves pressure on forests and other natural ecosystems and can therefore support both climate mitigation and adaptation strategies. Biochar and compost can further be re-used to enrich the soils to permit improved agriculture and allow soils to become a carbon sink.

Mismanaged waste not only affects climate but also natural ecosystems. For instance, improper disposal of plastic waste significantly disrupts marine ecosystems. At least 8 million tons of plastic end up in the world's oceans annually and make up around 80% of all marine debris¹⁰. On the opposite end, waste sorting, reusing, recycling and valorization improve the circularity of our economies generating economic value and jobs with resources that would be wasted otherwise.

Water projects provide people with greater access to safe drinking water and efficient methods of wastewater treatment. These project types also directly benefit the climate in several important ways. Water projects displace the use of firewood for boiling water, significantly reducing emissions and alleviating pressure on local woodlands (important carbon sinks). Modern water filtration further decreases the use of energy from fossil fuels for boiling water significantly. From an SDG perspective, clean water projects reduce indoor air pollution, improve health and living conditions for the local population, and provide economic benefits such as new job opportunities and less time and money spent acquiring fuel for cooking.

For wastewater treatment, GHGs include carbon dioxide (CO₂) from aerobic (oxidation processes), methane (CH₄) from anaerobic processes (3–19 % of global anthropogenic methane emissions), and nitrous oxide (N₂O) (3 % of N₂O emissions from all sources) associated with nitrification/denitrification (NDN) processes, and can, as an intermediate product, be emitted to the atmosphere. Modern treatment reduces these emissions, as opposed to conventional anaerobic lagoons that will emit methane for several decades. From an SDG perspective, modern water treatment reduces the risk of watershed contamination, improves health and living conditions for the local population, and provides economic benefits such as new job opportunities.

3) Urban Development Solutions

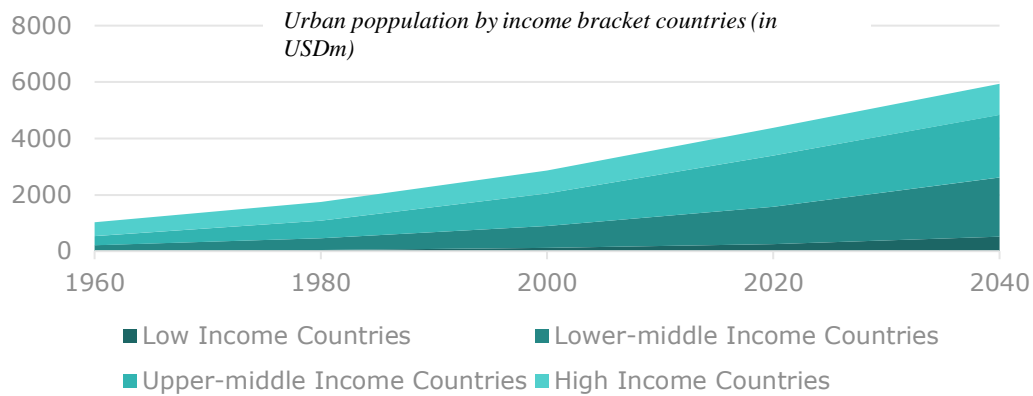
Urban Development Solutions entail a variety of infrastructure solutions and services, meant to provide environmentally and socially sustainable, adequate, and scalable structures for a world of ongoing urbanization and global mobility. In SCF's context, these solutions include climate infrastructure and urban transport (e.g., e-vehicle infrastructure, sustainable public transit, EV buses), digital infrastructure (e.g., connectivity solutions, powering telco infrastructure), smart city development (e.g., smart traffic management systems, intelligent street lighting), and sustainable tourism infrastructure (e.g., ecolodges with ecosystem services). These solutions are anticipated to empower existent and developing urban communities while protecting surrounding resources and biodiversity.

Around 4.4bn people, i.e. c. 56% of the world's population, reside in cities and urban areas. This number is anticipated to almost double and increase to up to 70% by 2050¹¹. This growth is especially driven by the strong population growth and urbanization in developing countries¹²:

¹⁰ Primary microplastics in the oceans, IUCN, 2017

¹¹ An Urbanising World, International Institute for Environment and Development, 2021; Sustainable Cities and Communities, World Bank, 2020

¹² An Urbanising World, International Institute for Environment and Development, 2021



The increasing pace at which cities keep expanding poses various fundamental challenges, like the provision of housing, sufficient and sustainable transport systems, basic services like water, waste, and electricity, employment, and others. At the same time the unplanned rapid growth of city land area and population exposes many communities to threats of natural disasters and diseases.

As a result, the demand for urban infrastructure, with a focus on developing regions, is increasing rapidly and has yet to be matched by the supply of private and public capital. IFC estimates the investment potential between 2019 and 2030 in various urban areas like transport, electric vehicles, and green buildings and infrastructure to be more than USD 26tn¹³.

Tourism infrastructure is recognized by SCF as another essential part of global urban development, given its substantial anticipated growth of over 13% CAGR to 2030 and its strong contribution to the GDPs of many developing urban areas and centers¹⁴. As tourism contributes to the immense strain that ongoing urbanization is putting onto the environment, ecotourism continues to emerge as a global megatrend to relieve this situation. Ecotourism is mainly defined by tourism infrastructure and services that seek to maintain and improve local ecosystems and biodiversity. This definition entails components such as land rehabilitation, wildlife reintroduction and maintenance, removal of invasive species and planting of native species, local community inclusion, and conservation research efforts. Ecotourism is therefore supposed to support local urban communities by maintaining and enhancing the economy without adverse impacts on the local environment.

4) Sustainable Agriculture

Sustainable Agriculture as a sector covers a variety of sub-sectors that all incorporate and promote the usage of sustainable and scalable techniques and technologies to maximize food output while preserving land and biological resources as well as maintaining and enhancing biodiversity. Main sub-sectors in the SCF's focus include sustainable high-value crop agriculture (utilizing restorative, organic practices with advanced techniques like double-cropping) of crops like soybeans, tea, and cashews, integrated food and agriculture value chains (e.g., drip feed irrigation systems or solar-powered water irrigation, storage and processing facilities), agricultural technology for agritech (e.g., biotech driven insect farms, innovation in soil conservation and irrigation), and controlled environment

¹³ Climate Investment Opportunities in Cities, IFC, 2018

¹⁴ IBISWorld Research, 2021

agriculture, including mostly high-tech greenhouses in areas of low agricultural yield and food insecurity.

Contributing about 20% of total global GHG emissions, agriculture is expected to be a primary field of investment and growth to transition to more sustainable, ecosystem enhancing standards¹⁵. This urgency is further enhanced by the increasing degradation of productive farmland, leading to the estimation that at the current pace of soil degradation through conventional agriculture, the world may have only 60 years of productive harvesting remaining¹⁶. Sustainable agriculture therefore seeks to combine and transition traditional methods, like crop rotation, controlled livestock grazing systems and agroforestry, with more advanced precision farming technologies to enhance the productive use of inputs like land, water and bio-based fertilizers.

Conservation agriculture is expected to continue growing from 148 million hectares to 327-400 million hectares by 2035¹⁷. On the side of regenerative agriculture, growth from an estimated 11.84 million hectares of current adoption to a total of 221-322 million hectares by 2050 is expected¹⁸. This rapid adoption is based in part on the historic growth rate of organic agriculture, as well as the projected conversion from traditional agriculture to conservation agriculture and regenerative cropping over time¹⁹. Regenerative agricultural approaches see strong improvements especially in pest control, crop quality, quantity of harvesting cycles and yield over time, resulting in up to 78% profitability improvements over conventional farming methods. This is not only expected to further increase the pace of adoption but result in profitable investment opportunities in a heavily growing market.

Complementary Component across All Sectors: Nature-based Solutions (NbS)

Nature-based Solutions (“NbS”), as defined by IUCN, are actions to protect, sustainably manage, and restore natural and modified ecosystems that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits. They are underpinned by benefits that flow from healthy ecosystems and target major challenges like climate change, disaster risk reduction, food and water security, health and are critical to economic development.

As NbS are estimated to contribute up to 37% to mitigating climate change and meeting Paris climate goals²⁰, they increasingly become part of the agendas of most national and subnational governments and in turn businesses and other entities in most areas around the globe. Examples for nature-based solutions to protect and restore in these areas include mangrove forests, improved/restored reefs for flood protection, the complementary use of plants or crops that provide nutrients to soil, cool down the surrounding area and remove CO₂, the use of trees or other native plants to stabilize soil and land surfaces, and many others.

¹⁵ Agriculture and Climate Change, McKinsey, 2020

¹⁶ Only 60 years of farming left if soil degradation continues, Scientific American, 2014

¹⁷ Regenerative agriculture and Conservation agriculture, Project Drawdown, 2017

¹⁸ Regenerative agriculture and Conservation agriculture, Project Drawdown, 2017

¹⁹ Regenerative agriculture and Conservation agriculture, Project Drawdown, 2017

²⁰ Nature-based Solutions, IUCN, 2020

The Fund sees nature-based solutions as an important element to enhance climate infrastructure projects and spur long-term economic, social and environmental benefits and intends to integrate nature-based solutions components across their entire portfolio of investments in all target sectors and geographies. Most notably, SCF’s efforts are backed by IUCN’s nature-related competencies and pioneering role in the establishment, promotion, and advancement of Nature-based Solutions as a sector.

A preliminary assessment of the NbS potential of an opportunity is conducted at the screening stage to understand whether the investment addresses one or more pressing societal challenges and relies on functioning and healthy ecosystems and/or ecosystem products and services to achieve its investment objectives, and whether this is a primary outcome. The initial assessment lays the groundwork for further investigation into whether a more comprehensive NbS assessment should be conducted to apply IUCN’s NbS framework and seek NbS opportunities.

A.2.2. Classification of Fund Impacts

>> Classify the investor contribution using the [Impact Management Project ABC Classification system](#) below. Please refer to the [GS4GG Claims Guideline](#) which regulates what claims may be made from Certified Funds.

	Investor Contribution	Sectors, technologies and/or measures	Act to avoid harm (subsuming May and Does Cause Harm)	Benefit stakeholders (non-monitored and non-certified SDGs where benefit is expected from the sector/technology etc)	Contribute to solutions (min. 3 SDGs to be monitored and certified across Fund)
1	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	Sector/technology Measure 1	GS Safeguards eliminate harm	SDG (X, n)	SDG (X, n)
		Add/delete rows as needed			
2	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital				
3	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital				

4	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital				
5	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital				
6	Signal that impact matters + Engage actively + Grow new/undersupplied capital markets + Provide flexible capital	Sustainable Energy Solutions	GS Safeguards eliminate harm	SCF generates various effects on positive outcomes for people and the planet	SDGs 5, 8, 11, 13
		Waste & Water Management	GS Safeguards eliminate harm	SCF generates various effects on positive outcomes for people and the planet	SDGs 5, 8, 11, 13
		Urban Development Solutions	GS Safeguards eliminate harm	SCF generates various effects on positive outcomes for people and the planet	SDGs 5, 8, 11, 13
		Sustainable Agriculture	GS Safeguards eliminate harm	SCF generates various effects on positive outcomes for people and the planet	SDGs 5, 8, 11, 13

A.3. Due diligence processes deployed by the Fund prior to investment decisions

>> Provide a description of:

- a. Procedure/process²¹ to screen investments for their ability to comply with GS4GG requirements, including:
 - (i) [Principles and Requirements](#)
 - (ii) *Fund Requirements (including Exclusion Criteria)*
 - (iii) *Safeguarding Requirements*

²¹ Please refer to Appendix 2 for a sample table that may be used to demonstrate compliance at investment level

- (iv) [Stakeholder Consultation Requirements](#)
- (v) *Activity Requirements (Renewable Energy, Community Services and Land Use and Forests, as applicable)*
- (vi) [Methodology Eligibility Requirements](#)
- b. Procedure/process to screen investments to help achieve Impact Goals and identify baselines (including how ex-ante assessments of anticipated impacts will be conducted while discussing risk and mitigation strategies to avoid missing impact targets or overstating planned impacts)
- c. Procedure/process for assessing potential investees for good governance processes that include transparency, inclusiveness, gender sensitivity, as well as those that are further outlined in the GS4GG Safeguarding Requirements
- d. Procedure/process to identify any need for Technical Assistance, including (but not limited to):
 - (i) carrying out stakeholder consultations as per GS4GG Requirements
 - (ii) complying with GS4GG Safeguarding Principles, including governance
 - (iii) supplying the necessary data to support impact assessment as per GS4GG Requirements (which may require a new methodology approval)
- e. Procedure/process to address any initial non-compliance with GS4GG Safeguarding Principles, including a timebound plan for closing gaps, with milestones to be met as interim goals and the actions to be taken if the gaps are not closed within the timeframes developed

Pegasus applies its proprietary impact assessment strategy and framework to screen, diligence, invest and manage portfolio investments. The assessment helps ensure that investment opportunities include gender sensitivity and SDG impact pathways, mandatory stakeholder engagement, assessment of community Health, Safety and Working Conditions, and anti-corruption, among other criteria.

At screening stage, investment opportunities are screened against the Fund's exclusion, eligibility, and impact criteria. The latter includes an estimate of carbon emissions avoided or mitigated, jobs created, and number of beneficiaries against the baseline. If possible, a numerical or qualitative assessment is performed in late due diligence.

Moreover, an initial risk assessment is conducted in accordance with IFC's approach to environmental and social (E&S) categorization. The Fund only invests in:

- Risk category B: business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;
- Risk category C: business activities with minimal or no adverse environmental or social risks and/or impacts.

In addition, the initial screening serves to identify material E&S risks (incl. sector-specific risks) in accordance with the reference framework, which is aligned with GS4GG requirements, IFC Performance Standards, and other internationally acknowledged frameworks. The criteria include:

- Overall sustainability and risk management
- Stakeholder engagement
- Human rights and labor rights
- Child and forced labor
- Gender equality and women's rights
- Occupational and community health and safety
- Land acquisition and tenure
- Cultural heritage, Indigenous peoples, Displacement and resettlement
- Anti-Corruption and anti-bribery

- Energy, Emissions and air pollutants
- Water
- Waste (hazardous and non-hazardous)
- Biodiversity, land use and soil

Furthermore, the Fund uses the IMP investment dimensions to understand the impact of each investment.

Impact Dimension	Impact Questions
What	<p>What are we addressing and what is the impact?</p> <p><i>Defines the investee’s degree of targeted impact, outcome, output, and how the business model creates value.</i></p>
Who	<p>Who is affected and / or benefitting from the impact?</p> <p><i>Defines the affected stakeholders and their characteristics, and geographical scope. We aim to understand the context for local and affected communities throughout the investment and project life cycle to identify and manage environmental and social impacts.</i></p>
How	<p>How large is the impact?</p> <p><i>Defines the scale (the number of individuals experiencing the outcome and impact), the depth and reach (difference between baseline and the outcome in the period), and the duration (the period during which the stakeholder experiences the outcome).</i></p>
Contribution	<p>What is our contribution and what have we changed?</p> <p><i>Defines our contribution on the investee’s social, environmental and economic impact that would not have occurred if the investee and our partnership had not existed. We differentiate between financial additionality (whether the investment would materialize without our investment and activities due to scarcity of external funding in many developing countries and market failures) and value additionality (whether impact would materialize without our investment and activities related to strategic priorities, value creation activities, technical assistance, capacity building, active stewardship, etc.).</i></p>
Risk	<p>What is the risk that we don’t achieve the desired impact?</p> <p><i>Defines external risks to an investment and project such as climate-related risks (e.g. transition and physical risk), reputational risk, or business integrity risks.</i></p>

Based on the initial screening, needs for a more comprehensive due diligence and/or environmental and social impact assessment are identified. The continuous assessment identifies E&S risks in more detail and any measures required to be implemented to ensure compliance with the reference framework. This can also include an E&S Monitoring & Management Plan and Action Plan to address any initial non-compliance with the reference framework, including a timebound plan for closing gaps, with milestones to be met as interim goals and the actions to be taken if the gaps are not closed within the timeframes developed. Considerations are reported to the Investment Committee to support decision-making. ESG and impact criteria are integrated into legal documentation where appropriate. This includes reporting requirements on ESG and SDG KPIs.

Stakeholder engagement is critical to understanding the views and interests of different stakeholders such as affected people in surrounding communities. Investees will be assessed on the basis of their stakeholder engagement approach. Where appropriate, stakeholder consultation is conducted in accordance with Gold Standard’s stakeholder consultation requirements. An ongoing feedback and/or grievance mechanism is required so that affected stakeholders have the opportunity to submit any feedback or raise grievances at any time.

The Fund also has a technical assistance facility and benefits from the combined capacity, experience and knowledge of IUCN, R20 and Gold Standard to achieve its impact objectives. The three organizations are accustomed to working in partnership with clearly defined processes and distributed roles and responsibilities. Technical assistance supports project development and capacity building to improve sustainable development impacts. Regular contacts allow for knowledge sharing that can inform investment analysis. Inputs are used during pipeline development, screening, due diligence, and monitoring and holding phases. Particularly during the screening and due diligence process, opportunities for technical assistance are identified on an ongoing, as-needed basis to fill any gaps in the reference framework.

A.4. Physical/ Geographical boundary of the Fund

>> *Provide details of the defined boundary of the Fund in terms of a geographical area e.g. municipality, region within a country, country or several countries within which all investments to be included in the fund will be implemented.*

SCF is a blind-pool fund and can invest into up to 42 countries:

Africa: Burkina Faso; Cameroon; Côte d'Ivoire; Democratic Republic of the Congo; Gabon; Guinea; Kenya; Mali, Mozambique; Nigeria; Rwanda; Senegal; South Africa; Togo; Uganda

Asia- Pacific: Cambodia; Fiji; Indonesia; Myanmar

Latin America and the Caribbean: Bahamas; Brazil; Chile; Costa Rica; Dominica; Dominican Republic; Ecuador; El Salvador; Guatemala; Haiti; Honduras, Jamaica; Mexico; Panama; Uruguay

Mediterranean: Albania; Jordan; Lebanon, Mauritania; Montenegro; Morocco; North Macedonia; Tunisia.

A.5. Exit Strategy

>> *Detail the exit strategies for investments, with particular attention to ongoing contribution to Sustainable Development post exit. The exit plans shall include:*

- (i) transition strategies (including time to exit)*
- (ii) details of how a “Do No Harm” approach will be applied and assessed across all impacts, not only those that are intended impacts of the Fund*
- (iii) for investments transferred to new/other Funds, a caveat that ongoing impact assessment must be carried out*

Each investment opportunity is selected individually based on its value proposition for SDG impacts in the long-term and beyond exit. Potential exit opportunities shall be evaluated periodically on a strategic basis and opportunistically. Time to exit varies from investment to investment and can typically range from 2-10 years (shorter and longer periods are possible). In addition, the Fund’s engagement approach with portfolio companies aims to develop ESG and impact capacity over time to prepare for enhanced capabilities at exit stage.

The Fund reviews potential exit opportunities at the beginning of the investment and periodically throughout the holding period. SCF believes that its portfolio of operational, certified impact infrastructure will be attractive prospective investment targets due to a current lack of investible impact projects in the market and high risk of greenwashing of existing solutions. Additionally, SCF believes the limited ticket size of up to USD 75 million has the potential to attract numerous potential buyers. The following potential exit opportunities are examples of what may be considered for each investment:

- **Sale to equity partners:** Strategic and financial co-investors, particularly in case of local institutions, are expected to have longer term interest holding the asset.
- **Sale to local operating partners:** Continuous project revenues can be used by the project developers to buy out equity investors in the medium term.
- **Dividend recap through green bonds:** Both debt and equity investment demand for certified and secure climate infrastructure assets increases. SCF's assets are expected to correspond to these criteria. While debt is more difficult to raise prior to the construction of these assets, it is expected that the operational assets with existing track record towards the end of the SCF holding period will likely be suitable to attract debt refinancing.
- **Sale to local authority:** As SCF's assets provide a public service to serve the growing local urban population, local authorities have interest in providing for and maintaining operations.
- **Sale to impact investment platform/international impact investor:** As the universe of impact funds is steadily growing the demand for vetted impact assets in developing countries naturally increases. SCF's operational and proven economic assets are an attractive target for international investors without SCF's technical competencies and local presence.

We are committed to promoting responsible and sustainable investing practices including responsible exits to promote the long-term sustainability of the investee companies, the value for their stakeholders, and the continuation of positive social and environmental outcomes. Exit is a critical part of the investment process rather than an afterthought. To operationalize our responsible exit approach, we aim to undertake the following actions:

1. **Impact preservation:** We will strive to preserve and enhance the positive social and environmental impacts during our investment period. This includes engaging with the investee companies to enhance their performance and the impact on employees, communities, and the broader ecosystem pre-exit.
2. **Assessment of exit strategies and potential acquires:** We aim to carefully evaluate exit opportunities and potential acquires to assess their impact on ESG and stakeholders, and whether the potential acquirers have the capacity, strategy, and commitment to sustain the impact. This includes an assessment of how the exit opportunity and potential acquirer addresses "Do No Harm" and ongoing impact assessments.
3. **Engagement with stakeholders:** Throughout the exit process, we aim to engage with affected stakeholders to address financial and impact risks during the transition and have an inclusive dialogue. This can include engagement with stakeholders such as the investee company, management teams, employees, local communities, and other investors, to understand and address their perspectives and concerns during the exit process.
4. **Sustainable transition and knowledge transfer:** To support the sustainable transition of the portfolio company, we will facilitate knowledge transfer and capacity-building initiatives to strengthen the capabilities of the acquirer and stakeholders involved.
5. **Contractual provisions:** We may also consider including covenants or terms in the transaction documentation to bind the acquirer to the impact assessments or objectives if legally viable.

However, a genuine understanding of the acquirer's intentions based on their strategy and actions provides greater confidence that the impact will not only continue but potentially be enhanced.

6. Monitoring and Reporting: We will establish a monitoring and reporting mechanism to track the implementation of our responsible exit approach. Regular assessments will be conducted to evaluate the effectiveness and impact of our exit practices.
7. Review and Improvement: We are committed to continuous improvement and will regularly review and update our exit approach to align with evolving best practices, industry standards, and stakeholder expectations.

SECTION B. DESCRIPTION OF THE MONITORING, REPORTING AND VERIFICATION (MRV) PLAN AND DATA MANAGEMENT SYSTEM

>> *Provide a detailed description of the operational and Management system of the fund including*

- (i) the impact assessment process that will occur throughout the life of the Fund*
- (ii) details of data aggregation and QA/QC processes (if any) for the monitored data from Investments.*
- (iii) Records and documentation control process for each investment under the Fund;*
- (iv) Frequency of reporting Fund level outcomes (note: beginning when more than 10% of planned assets for a tranche or full fund (lesser of the two) are invested).*
- (v) Roles and responsibilities of personnel involved, noting Fund Manager (s) are responsible for ensuring that Investees comply with GS4GG rules*
- (vi) disclosure of any performance incentives offered that are linked to meeting the Impact Goals of the Fund*

The Fund aims to collect, monitor, and report on ESG and impact related data on an ongoing and regular basis with a standardized approach in order to track ESG and impact performance against targets and to take corrective measures in time. Data and information are collected and recorded on investee level and aggregated to the fund level. Analyzing performance based on the data allows corrective actions to be taken to meet goals over time.

For each investment, a management & monitoring and/ or action plan shall be developed and revised over time to define measures, responsibilities, and a timeline to mitigate ESG risks and enhance ESG performance. Reporting obligations aligned with the Fund's impact objectives, Gold Standard's environmental and social safeguards, and the Principal Adverse Impacts (PAIs) of the European Union's Sustainable Finance Disclosure Regulation (SFDR) shall be built into legal documents and investment agreements. The management & monitoring and/ or action plan, reporting requirements, the format, and process are established and agreed with investee companies during late due diligence or at the onboarding stage at the latest. Performance and reports are continuously monitored to ensure that potential ESG or reputational issues are quickly identified and properly managed.

Data is collected from investee companies directly who are expected to develop or have the ability to provide robust and reliable data on the indicators periodically. An aggregated reporting across the portfolio is conducted on an annual basis. The Fund provides annual performance reports to investors, including ESG and impact related data at a portfolio level and updates on specific investments.

Investment teams and the ESG and impact manager are responsible for monitoring the progress of portfolio companies by receiving regular ESG data and updates, conduct site visits and engage proactively with the investee company to enhance ESG and impact performance, reporting, and the implementation of action plans and measures during the holding period. Data and information are reviewed to identify gaps and take corrective actions with the goal to achieve the Fund's impact objectives. In addition, the assessment of KPIs and information build a critical part of the ongoing engagement approach with investee companies to discuss measures and actions to improve operational, strategic, and management processes and performance based on lessons learnt.

SECTION C. GOVERNANCE

>>

- a) Describe how the Fund's governing bodies (e.g. the board and/or the investment committee):
 - (i) Have competence in sustainable development issues and impact management
 - (ii) Prioritize gender and other dimensions of diversity, as demonstrated by composition, culture and including different voices/perspectives in decision making
 - (iii) Provide active oversight
 - (iv) Hold the CEO/Managing Director accountable for Fund operations complying with the GS Fund Requirements, in particular policies, processes and disclosures in 2.1.2 and 2.1.4
 - (v) Meet the national minimum corporate governance standards, as appropriate
- (b) Describe how the Enterprise and not just the Fund will follow GS4GG Safeguarding Principles and Requirements within 2 years of Design Certification, and
- (c) Provide evidence of a public statement (e.g. a webpage) about the Enterprise's intent to establish the Fund and its SDG Impact Goals

The Funds' governing bodies benefit from diverse and complementary competencies to ensure that sustainable development issues and impact management is addressed appropriately through the following roles and bodies:

- **ESG and Impact Manager:** Ensures conformity with the impact management and measurement system, incl. implementing policies, processes, monitoring and reporting systems in place to achieve the Fund's impact objectives.
- **Investment Committee:** The Investment Committee of the Fund is a team of senior investment professionals that reviews and approves each Fund-level investment and disposition undertaken by the Fund. Investment Committee meetings are called on an as-needed basis and members of the applicable investment team typically present potential transactions to the Investment Committee for consideration. This includes a discussion about ESG and impact considerations and if the investment can contribute to the Fund's impact objectives. The Investment Committee has active oversight and includes investment professionals from Pegasus Capital Advisors, incl. Pegasus' General Counsel & Chief Compliance Officer and ESG & Impact Manager, and R20. Gold Standard and IUCN are non-voting observers to the Investment Committee.
- **Advisory Board:** The Fund's advisory board is comprised of individuals who have extensive experience and networks within the geographic areas and investment sectors of the Fund. Gender and geographic diversity were considered in the selection of the board. The board is expected to substantially contribute to all parts of the investment process.

The CEO is accountable for Fund operations complying with the GS Fund Requirements, in particular policies, processes and disclosures. Pegasus aims to implement the GS4GG Safeguarding Principles and Requirements within two years of Design Certification on enterprise level.

A public statement about Pegasus's intent to establish the Fund and its SDG Impact Goals can be found at <https://www.pcalp.com/impact/>.

SECTION D. DURATION OF THE FUND

D.1. Date of first submission of Fund to Gold Standard

>> *State the date when document was first submitted to Gold Standard for Fund Design Certification*

November 4, 2022

D.2. Duration of the Fund

>> *State the total duration of the proposed Fund in years*

Commitment period is 5 years from the final Fund closing date.

Term of the Fund is 12th anniversary of the final Fund closing date, subject to up to three, one-year extensions.

Notice to Recipient

The Fund Design Document (“FDD”) is for information purposes only and may not be reproduced or distributed under any circumstances without our prior written consent. This FDD was developed in accordance with Gold Standard’s FDD template and is intended to summarize the impact approach for the Subnational Climate Fund in implementing environmental, social and governance (“ESG”) principles and impact strategies into its investment process and the ongoing management of the portfolio companies. Neither Pegasus nor Gold Standard makes no representation or warranty regarding the information set forth in this FDD, including, but not limited to, the accuracy or completeness of the information or that Pegasus will successfully identify or mitigate any particular ESG-related risk or capitalize on any ESG-related opportunity.

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APPENDIX 1 - CONTACT INFORMATION OF FUND MANAGER (S)

Responsible person/ entity	Natalie Gartmann
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Contact person	Natalie Gartmann
Title	ESG and Impact Manager

APPENDIX 2 - SAMPLE TABLE

Sector:	RE/EE/Waste:	
Technology:	Hydro/Wind/ etc.:	
Eligibility Criteria	How projects can demonstrate compliance with the criteria	Evidence of compliance that can be provided
1. e.g. Projects from waste management sector do not divert resources from other uses	e.g. Explain how the waste type handled by project was disposed in pre-project scenario	e.g. Third party reports etc.
(add rows as necessary)		
Sector:	RE/EE/Waste:	
Technology:	Hydro/Wind/ etc.:	

Revision History

Version	Date	Remarks
1.1	15 Jul 2022	Version following first revision of Fund requirements: Editorials, including clarification of the ABC approach
1.0	20 May 2022	Initial adoption