

OPERATIONAL MANUAL
for the
GALÁPAGOS LIFE FUND

Draft, May 19, 2023

Abbreviations

CQS	Consultants' Qualifications
LCS	Least-Cost Selection
QBS	Quality Based Selection
QCBS	Quality and Cost-Based Selection
RFP	Request for Proposals
the Fund	Galápagos Life Fund
SOFA	Statement of Financial Activity
SORP	Statement of Recommended Practice
TOR	Terms of Reference

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1. INTRODUCTION

This operational manual (this “**Operational Manual**”) is intended to support the administrative and financial operations of the Galápagos Life Fund (the “**Fund**”), which was legally created as Delaware Not for Profit Corporation on _____. Capitalized terms used but not defined herein shall have the meanings given to them in the bylaws (the “**Fund Bylaws**”), attached hereto as Exhibit 4.

The purpose of the Fund is to support and promote the maintenance, growth and security of the natural capital of the Galápagos Islands and their marine ecosystems by making grants to, or funding projects of, organizations, government agencies and other entities for relevant environmental and social development projects as informed by biodiversity, social, economic, sustainability and climate change matters and by pledging assets to secure loans and other obligations in furtherance of the purpose. This Operational Manual is to be used by the Board of the Fund, its Executive Director and any persons or entities engaged by the Fund to ensure the Fund’s effective operation and achievement of its stated Objectives. This Operational Manual aims to provide guidance for carrying out the obligations of the Fund as these are set out in the Fund’s Bylaws (the “**Objectives**”).

2. STRUCTURES AND ORGANIZATION

Exhibit 1 to this Operational Manual is a diagram that depicts the structure of the Fund and the flow of funds that will result from the debt swap and its operations as a grant making entity.

2.1 The Board of Directors

The Board shall have executive control and management of the affairs of the Fund, shall exercise and perform the functions, powers and duties of the Fund on its behalf and shall be responsible for the effective and efficient administration of the Fund. The Board may adopt such resolutions for the conduct of its business as it shall deem advisable.

The powers and duties of the Board include, but are not limited to, the following:

- (a) to approve annual workplans and budgets;
- (b) to approve the operations manual and internal policies;
- (c) to approve all grant-making procedures and internal policies;
- (d) to approve all grants or other funding to projects and to specify the use to which such grants or funds will be put;
- (e) to hire key personnel such as the Executive Director, subject to budgetary and other restrictions, to establish the conditions of the Executive Director’s employment in accordance with any applicable provisions of the Fund Bylaws, periodically to evaluate his or her performance as the Executive Director and to dismiss the Executive Director;

- (f) to approve, review periodically, and modify (as required) the organizational structure and personnel procedures of the Fund;
- (g) to establish Bank Accounts and Investment Accounts for the Fund;
- (h) to create representative offices and committees, including grant and investment Committees and their respective charters;
- (i) to appoint or replace the Accountant and the Auditor;
- (j) to decide on issues concerning the members of the Board, the Officers and other personnel, including their dismissal, reimbursement of expenses and Director conflicts of interest;
- (k) to seek and accept donations, including acceptance of donations with restrictions on the use of such donations;
- (l) to apply legal registration and for tax-exempt status in any jurisdiction;
- (m) to approve the Investment Policy;
- (n) to engage in strategic planning;
- (o) to enter into any agreements related to the formation, funding and operation of the Fund, including the FESA, Conservation Funding Agreement, and any document granting a security interest to GPS Blue over the assets of the Fund; provided that such agreements shall not cause the Fund to conduct or carry on any activities not permitted to be conducted or carried on by an organization exempt under Section 501(c)(3) of the Code or by an organization contributions to which are deductible under Sections 170(c)(2), 2055(a) and/or 2522(a) of the Code;
- (p) to comply with covenants made by the Fund set forth in Schedule Y (*Office of Development Policy Requirements*) to the FESA under the heading “Social, Worker Rights, Environmental, and Economic Effects Covenants,” each of which is incorporated herein by reference; and such power and duty of the Board shall survive termination of the FESA; and
- (q) to do all other things which the Board determines are necessary and proper for the administration and operation of the Fund to enable the Fund to achieve its General Purpose, comply with the law and cause the Fund to refrain from conducting or carrying on any activities not permitted to be conducted or carried on by an organization exempt under Section 501(c)(3) of the Code or by an organization contributions to which are deductible under Sections 170(c)(2), 2055(a) and/or 2522(a) of the Code.

2.2 Duties of the Board Officers

Duties of the Co-Chairpersons. Two Directors of the Fund shall serve as Co-Chairpersons of the Fund. One Co-Chairperson shall be the Special Director (the “**The Affiliate Co-Chairperson**”). The other Co-Chairperson shall be a Non-Affiliate Director (the “**The Non-Affiliate Co-Chairperson**”) selected by the Board pursuant to Section **Error! Reference source not found.** One or both of the Co-Chairpersons shall

preside over all meetings of the Board and Members. The Co-Chairpersons shall perform all duties incident to office of the Co-Chairperson, and such other duties as may be delegated to such office by the Board. Each Co-Chairperson possesses the authority to execute all instruments that require his or her signature. In the absence of an Executive Director, either Co-Chairperson or such other Director as the Board may appoint shall exercise all of the functions and duties of the Executive Director as described below; provided, however, that a Director appointed in accordance with this sentence shall not receive compensation for his or her service as an Executive Director.

Duties of the Treasurer. The Treasurer shall oversee the Fund's financial activities, which include but are not limited to, collecting, receiving and maintaining custody over the funds, securities and investments of the Fund, subject to the order of the Board. The Treasurer shall manage the hiring of an investment manager to implement the Investment Policy. The Treasurer shall keep all funds of the Fund on deposit with banks or trust companies approved by the Board. The Treasurer shall submit reports to the Board upon request. The books of account shall be open at all times to the inspection of the Directors. Upon approval of the Board, the Treasurer may delegate certain functions of his or her office to employees of the Fund, but he or she shall continue to be responsible for the proper performance of such functions. The Treasurer shall chair the Finance Committee and shall perform such other duties and functions as may be determined by the Board.

Duties of the Secretary. In the absence, vacancy or refusal to act of both of the Co-Chairpersons, the Secretary shall preside over meetings of the Board and shall replace the Co-Chairpersons, exercise all of the powers and duties of the Co-Chairpersons and serve as such replacement until the return of at least one of the Chairpersons or the election of at least one of the Co-Chairpersons in accordance with Section **Error! Reference source not found.** of these Bylaws. The Secretary shall (a) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (b) have charge of the corporate records and of the seal of the Fund; (c) keep a register of the mailing address of each Director and any Committee member which shall from time to time be furnished to the Secretary by such Director or Committee member; and (d) in general, perform all duties incident to the office of secretary of a corporation and such other duties as the Board and the Co-Chairpersons may from time to time assign to the Secretary. The Secretary may delegate such details of the performance of duties of the Secretary's office as may be appropriate in the exercise of reasonable care to one or more persons in his or her stead, but shall not thereby be relieved of responsibility for the performance of such duties.

The Executive Director

The Executive Director of the Fund shall be an employee of the Fund responsible for carrying on the Fund's day-to-day affairs.

The Executive Director shall be accountable for executing the policies and decisions of the Board to achieve the most efficient financial and administrative management of the Fund's affairs. The Executive Director shall attend all meetings of the Board. The Executive Director shall have custody of the records and books of the Fund, other than books of account, and perform the usual duties pertaining to his or her office and such other duties as the Board may from time to time prescribe.

The Executive Director shall serve without any restriction on term. However, the Executive Director shall serve at the pleasure of the Board and may be removed, with or without cause, by a Special Majority Vote of the Board.

The Executive Director's responsibilities include:

- (a) Reporting to the Board on the activities of the Fund, and promptly, regularly and fully informing the Co-Chairpersons of the Board about the current affairs, activities and finances of the Fund, and for obtaining the Co-Chairpersons's advice and approval in all cases where this may be required by the Fund Bylaws or this Operational Manual;
- (b) Calling a meeting of the Directors at the request of the Co-Chairpersons elected by the Directors or if requested to do so in writing by three Directors;
- (c) Circulating notices of general meetings on behalf of the Directors;
- (d) Participating in Board meetings from time to time as requested by the Board and ensure that appropriate staff members are available to assist at Board meetings;
- (e) Verifying that any proxy appointment is consistent with _____;
- (f) Ensuring that minutes are taken at all Board meetings;
- (g) Overseeing preparation of the Annual and Directors' Reports;
- (h) Ensuring that all required documents are filed;
- (i) Preparing or causing to be prepared and signing contracts, leases, tax returns, grant agreements, applications for permits and registrations, and all other written documents on behalf of the Fund, subject to any approvals by the Board;
- (j) Liaising with governmental organizations, local communities, non-governmental organizations, businesses, donors, and the media.
- (k) Collaborating with members of the Board to plan and agree on a future fundraising strategy for the Fund.
- (l) Preparing plans, strategies, budgets and RFPs, including long-term strategic plans, annual operating plans, internal operations manuals and policies, and annual budgets, for the consideration of and approval by the Board;
- (m) Coordinating with other initiatives in order to achieve greater efficiencies and synergies, access additional potential sources of funding, and raise awareness of any potential negative impacts on biodiversity that could result from proposed or current donor-funded, government-funded and private-sector-funded initiatives;
- (n) Hiring and supervising the Fund staff based on Board-approved budgets and authorization;

- (o) Preparing and maintaining financial records and accounts, either directly or by supervising other officers and staff who may be charged with that responsibility;
- (p) Administering, monitoring, and evaluating Board-approved transfers of funds to grantees, including ensuring that grantees submit financial and technical reports as required, resolving any issues involving a grantee's failure to perform as agreed or failure to report in a proper and timely manner as required, and reporting to the Board on all of the preceding;
- (q) Maintaining relations with the Investment Manager and/or Investment Consultant; and
- (r) Reporting to the Fund donors and/or lenders per financing and/or grant agreements.
- (s) Ensuring that all other tasks assigned by the Board are performed and instructions of the Board are carried out for the Fund to achieve its Objectives.

In his or her relations with the Board, the Executive Director must

- (i) ensure that information which is relevant to the secretarial affairs of the Fund is provided promptly; and
- (ii) ensure that minutes are taken of all meetings of the Board, Board Committees, and general meetings in accordance with the Fund Bylaws and keep a record of such minutes in accordance with section 2.4 below.

The terms of reference for the Executive Director role are attached hereto as Exhibit 3.

2.3 Advisory Committees

The Board may, by resolution, establish one or more committees (each a "**Committee**"). Each Committee must be chaired by a Director appointed by the Board. The Board may designate any Directors as members of any Committee. The Board may establish procedures for Committees, and delegate to a Committee such authority as may be necessary or desirable for the efficient management of the property, affairs, business and activities of the Fund. However, the Board shall not delegate to any Committee any power or authority that requires a Special Majority Vote. The Board may allow persons with professional or expert competence to be an ex-officio member of any Committee (an "**Ex-Officio Committee Member**"). Ex-Officio Committee Members shall not be entitled to vote on any matter that is before the Board or Committee, shall not be taken into account for purposes of determining a quorum of Directors, and shall not be taken into account for purposes of determining the number of Directors serving at any given time. A Committee's authority shall continue until terminated by the Board. Committees shall, without limitation, include the following:

The Finance Committee. The Finance Committee shall include at least one Director with the following financial qualifications: (i) an understanding of generally accepted accounting principles and their application to the preparation of financial statements as well as accounting for estimates, accruals and reserves, (ii) experience preparing, auditing, analyzing or evaluating financial statements that are generally comparable in

breadth and complexity of issues to those of the Fund and (iii) an understanding of internal control over financial reporting and audit committee functions. Such financially qualified Director shall recommend to the Board strategies and procedures for the investment of funds held by the Fund, if any. The Finance Committee will (x) support the Board by providing recommendations to formulate or review and revise its policies and guidelines related to resource mobilization, investment and other financial frameworks and (y) support the recruitment of the investment manager and/or investment advisor and monitoring and evaluating their performance to keep the Board regularly informed and recommend to the Board any possible changes to consider. The Finance Committee may also support the recruitment of the Accountant and Auditor.

The Technical Advisory Committee. The Technical Advisory Committee shall be comprised of at least two Directors and at least one individual who has expertise in scientific, environmental, social and conservation matters (one of which such individuals shall be the chairperson of such Committee). The Technical Advisory Committee shall review and comment on grant proposals and provide advice to the Board on technical matters and inquiries related to their field of expertise. The Technical Advisory Committee shall meet (A) on a monthly basis and (B) at the direction of the Board or the Directors who are on the Technical Advisory Committee when requested to discuss grant-related and technical matters.

Conflicts of Interest

The Fund has established a conflicts of interest policy (the “**Conflicts Policy**”), a copy of which is attached hereto as Exhibit 2. In general, the Conflicts Policy provides guidance on the legal requirements and sets out the policy of the Fund in relation to conflicts of interest. The following is a general overview of the Conflicts Policy:

Each of the Directors and staff of the Fund (including the Fund’s Executive Director) must declare in a written statement addressed to the Co-Chairpersons of the Board the nature and extent of any interest, direct or indirect, which he or she has in a proposed transaction or arrangement with the Fund or in any transaction or arrangement entered into by the Fund which has not previously been declared, unless the transaction or arrangement is permitted by the Fund Bylaws.

A Director should excuse himself or herself from any discussions of the Board in which it is possible that a conflict will arise between his or her duty to act solely in the interests of the Fund and any personal interest (including but not limited to any personal financial interest).

The unconflicted Directors may (subject to such terms and conditions, if any, as they may see fit to impose from time to time, and subject always to their right to vary or terminate such authorisation) authorise:

- (a) any matter which would otherwise result in a Director infringing his or her duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Fund and which may reasonably be regarded as likely to give rise to a conflict of interest; and

- (b) a Director to accept or continue in any office, employment or position in addition to his or her office as a Director and may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises.

The Director in question and any other interested Director cannot vote, act, or attempt to influence improperly the deliberations on any matter in which he or she has been determined by the Board to have an interest.

An interest includes both direct and indirect interests, but excludes interest which may arise due to the Director's involvement in the management of a not for profit beneficiary of the Fund.

2.4 Meetings of the Board of Directors

Written notice of meetings of the Board must be sent to Directors at least one week in advance of the meetings.

Meetings shall be presided over by the Co-Chairpersons or the Vice Co-Chairpersons, seconded by the Executive Director.

The Executive Director must keep and record (or cause to be recorded and kept) accurate and complete minutes of all meetings of the Board, which must include:

- (a) The appointments of Officers made by the Directors;
- (b) Proceedings;
- (c) Meetings:
 - (i) names of the Directors present at the meeting;
 - (ii) decisions taken at the meetings; and
 - (iii) where appropriate, the reasons for decisions;
- (d) Decisions taken by written resolution since the last meeting.

3. OPERATIONS

3.1 The Fund and its Functions

The Fund is expected to eventually have a staff of at least seven people, including the Executive Director, four Program Officers and two Administrative Assistants. The Board may identify other staff that may be needed including a Financial Director and/or Outreach Officer. Accounting support will be outsourced to a local accounting firm. The Fund will establish an office in the Galápagos.

The Fund's administration will be funded by withholding a portion (no more than 10%, though the precise amount remains to be determined, based on need) of the Conservation Funding Agreement cash flow designated to provide grant funding for activities on the ground (excluding cash flow to capitalize the endowment). The Fund

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will always be limited to a maximum of 10% for its administration, on any future funding designated to finance grant making activities on the ground.

the Fund staff responsibilities will include:

- (a) General administrative support to the Fund;
- (b) Managing fiduciary services, including tracking funds with the investment manager, notifying the bank for transfer of grant funds to grantees, loan repayments to creditors, etc.;
- (c) Coordination and review of the annual call for proposals funding requests process for grantees and the annual reports of usage of previous year's funds from grantees for presentation to the Fund Board;
- (d) Quarterly reporting on investment management returns, fund transfers, etc. to the Donors and the Board;
- (e) Facilitating meetings of the Board;
- (f) Coordinating the annual audit of the Fund; and
- (g) Managing promotional activities (press releases, web presence, etc.)

3.2 Annual Call for Proposals

The Board shall consider requests for grants based on [a semi-annual call] for proposals process. The Board will create a Technical Advisory Committee to guide this process. The Technical Advisory Committee will draft a Terms of Reference in its first year to help guide the process. Each year, the Board, guided by recommendations from the Technical Advisory Committee, will set its priorities based on funds available, historical distribution of grants both geographically and thematically, national priorities, opportunities to leverage funds against other bi-lateral, multi-lateral, and private grants, etc. The Fund staff will be responsible for running of the actual call for proposals, including posting of the call for proposals, collection of proposals, due diligence on potential grantees, scoring of proposals, and presentation of the proposals to the Technical Advisory Committee and Board for final approval, notification of outcomes to proposal submitters, etc. Final decisions on proposals to be funded will be made by the Board, based on recommendations of the Technical Advisory Committee.

The call for proposals announcement will be widely distributed by as many means as reasonably possible (website, NGO networks, community organizations, newspaper, etc.) in order to reach a broad representation of potential grantees. A section of the Fund's website will be dedicated to the grant award process.

The steps of the grant cycle, grantee eligibility criteria, guidance for submitting proposal documents and the criteria that will be used for evaluating proposals are made public to ensure that all potential grantees have access to the same information. The Fund staff will respond to questions from grant applicants which may arise during the grant award process.

Fund staff will publish grant applicants' questions and answers on the Fund website so that all concerned may benefit. The Fund will use a two-step process that will reduce time and costs of both the Fund and potential grantees by pre-screening for projects or activities with high potential as well as to determine grantee eligibility:

- (a) The first grant application step will require grant seekers to prepare a concept note that provides key information on the grant seeker, a brief description of the activities proposed for financing and the objectives they address and a summary of the execution approach and a rough cost estimate.
- (b) The second grant application step will require a full proposal prepared for those criteria judged acceptable by the Fund which may or may not request changes to the original criteria. The final proposal is evaluated according to the criteria specified in the call for proposals and an interview or site visit with the candidate grantee is carried out before the grant is awarded.

The Fund staff and the Technical Advisory Committee may choose to rely on external technical reviewers or consult with advisory bodies to provide objective or specialized guidance on grant selection. Individuals giving advice should be independent of the grants or activities they are reviewing, and shall not create a perceived conflict of interest.

When the pool of grant applicants is small and/or grant applicants' project design skills are limited, the Fund may choose to prepare the technical parameters of priority projects or activities that the Fund wishes to finance and allow grantees to compete solely on the basis of their approach to implementation.

The Fund will provide timely notification to all applicants that do not receive funding. Feedback will be made available on an equal-opportunity basis to all rejected applicants.

Transfer of funds from the Fund to the grantees will be guided by a fully-executed Grant Agreement, with a sample attached as Exhibit 5.

The first call for proposals will be run in the first half of 2023, with grant agreements expected to be signed in mid-2023, and initial pay-outs to grantees shortly thereafter. Pay-outs will be on a quarterly basis, based on demonstrated need (e.g. quarterly report (demonstrating spending of previous quarter's funds provided within 30 days of the end of the quarter). A sample quarterly report is attached for reference as Exhibit 7.

The Fund may make a payment to a grantee only if certain conditions are met. Among them, the grantee must:

- (a) Have as its main purpose the conservation and/or management of marine and coastal biodiversity and/or ecosystem-based adaptation to climate change in the Galápagos; and
- (b) Have legally existed and operated in the Galápagos for a minimum of two years.

3.3 Procurement of Goods and Consultant Services for the Fund

Once the Fund is operational, it will be responsible for procurement of goods and consultant services in accordance with rules prescribed in this Operational Manual, which include, but are not limited to, services that may be provided by accountants, auditors, lawyers, investment consultants and investment managers. The following considerations guide the Fund's process for selecting consultants for services to be provided to the Fund:

- (a) the need for high-quality services;
- (b) the need to give qualified consultants an opportunity to compete;
- (c) the need for transparency in the selection process; and
- (d) the need for economy and efficiency in the services to be delivered.

The Fund recognizes that, in the majority of cases, these considerations can best be addressed through competition among qualified short-listed firms in which the selection is based on the quality of the proposal and, where appropriate, on the cost of the services to be provided. The Fund also recognizes that the services it requires are likely to involve international competitive selection.

Consultants are expected to provide professional, objective, and impartial advice and at all times and to hold the Fund's interests paramount. To this end, the Fund will apply its best effort to identify whether the following potential or real conflicts of interest are present in the selection process:

- (a) Consulting activity conflicts. There shall be no conflicts of interest between consulting activities and procurement of goods, works or services that will be supplied to the Fund or previous involvement in the selection process.
- (b) Conflict among consulting assignments. Neither consultants (including their personnel and sub-consultants) nor any of their affiliates shall be hired for any assignment that, by its nature, may be in conflict with another assignment the consultants have accepted for the Fund.
- (c) Relationship with the Fund staff. There shall be no conflicts of interest arising when the consultants (including their personnel and sub-consultants) have a business or family relationship with the Fund staff or Directors, or anyone else with a material interest in or control over the Fund.

The Board is the final authority for decisions related to potential or real conflicts of interest in the selection process.

Competitive Selection of Consultants

The Board is responsible for contracting with an investment manager, investment consultant, custodian, registered agent and any other professional service provider that is engaged in the interest of sound operation of the Fund. The Board will appoint an Executive Director to attend to the Board's operational and administrative needs.

The following are **key components of the competitive selection process** and are subject to review by the Board ex ante or ex post in the selection process, as the Board shall deem necessary:

Terms of Reference (“TOR”). TOR that defines clearly the objectives, goals, and scope of the assignment and provides background information (including a list of existing relevant studies and basic data) to facilitate the consultants’ preparation of their proposals.

Budget. A thorough cost estimate prepared to earmark realistic budgetary resources.

Advertising. A plan to disseminate information by appropriate means in order to obtain proposals from several qualified firms. Pre-identification of experienced firms may be sought through “expressions of interest”. The information requested should be the minimum required to make a judgment on the firm’s suitability and not be so complex as to discourage consultants from expressing interest. TORs should be advertised for a minimum of 30 days.

Short list. A sufficient number of qualified firms available to ensure a short list of firms with competitive costs. In general, a short list will comprise no less than three firms.

Request for Proposals. RFPs which shall include (a) a letter of invitation (i.e. the services sought, the details of the Fund, and the date, time, and address for submission of proposals); (b) information to consultants (i.e. necessary information that would help consultants prepare proposals); (c) the TOR, and (d) a proposed contract or special contractual obligations that would not be considered standard in an agreement to provide services or are specific to the assignment.

A Rating System for Evaluating Proposals: The quality of a technical proposal is rated taking into account: (a) the consultant’s relevant experience for the assignment, (b) the quality of the methodology proposed, (c) the qualifications of the key staff proposed, and (d) transfer of knowledge, if required in the TOR. Weighted numerical ratings, consistent with the type and complexity of the assignment and taking into account any pre-selection using the above criteria, will be used to score the proposals.

The following **methods of selecting consultants** are employed by the Fund. The Board shall approve the method prior to initiation of the selection process.

Quality and Cost-Based Selection (“QCBS”): QCBS uses a competitive process among short-listed firms that takes into account the quality of the proposal and the cost of the services in the selection of the successful firm. Cost is used judiciously as a selection factor. The relative weight given to the quality and cost is determined for each case depending on the nature of the assignment.

Quality-Based Selection (“QBS”): QBS is used for complex or highly specialized assignments for which it is difficult to define precise TOR or assignments involving a high downstream impact and in which the overriding objective is to engage the most qualified experts. Because of the emphasis on the quality of the proposal, the RFP may request submission of a technical proposal only (without the financial proposal), or request submission of both

technical and financial proposals at the same time, but in separate envelopes (two-envelope system).

Fixed Budget: Fixed Budget is appropriate only when the assignment is simple and can be precisely defined and when the budget is fixed. The RFP indicates the available budget and requests the consultants to provide their best technical and financial proposals in separate envelopes, within the budget. TORs should be particularly well prepared to make sure that the budget is sufficient for the consultants to perform the expected tasks. Evaluation of all technical proposals is carried out first, then the price proposals are opened in public and prices read aloud. Proposals exceeding the indicated budget are rejected. The consultant submitting the highest ranked technical proposal shall be selected and invited to negotiate a contract.

Least-Cost Selection (“LCS”): LCS is only appropriate for selecting consultants for assignments of a standard or routine nature (audits, engineering design of noncomplex works, and so forth) where well-established practices and standards exist. Under this method, a “minimum” qualifying mark for the “quality” is established. Proposals, to be submitted in two envelopes, are invited from a short list. Technical proposals are opened first and evaluated. Those securing less than the minimum qualifying mark are rejected, and the financial proposals of the rest are opened in public.

Consultants’ Qualifications (“CQS”): CQS may be used for small assignments for which the need for preparing and evaluating competitive proposals is not justified. In such cases, the Borrower should prepare a TOR, request expressions of interest and information on the consultants’ experience and competence relevant to the assignment, establish a short list, and select the firm with the most appropriate qualifications and references. The selected firm should be asked to submit a combined technical-financial proposal and then be invited to negotiate the contract.

The Fund recognizes that non-competitive selection is an exceptional practice that may be justified in certain cases. In those cases, the following selection method may be used:

Single Source Selection (“SSS”): SSS does not involve a competitive selection process and may be appropriate only if it presents a clear advantage over competition such as (a) for tasks valued at less than US\$25,000 that represent a natural continuation of previous work carried out by the firm, provided they do not exceed 25% of the original contract value, (b) in emergency cases, such as in response to disasters and for consulting services required during the period of time immediately following the emergency, (c) for very small assignments or (d) when only one firm is qualified or has experience of exceptional worth for the assignment. All such SSS cases are subject to the prior no-objection of the Fund Board.

The Board must ensure that all assignments are carried out, and all payments are made, in conformity with the approved conditions of signed contracts.

Operational Costs

Whenever feasible, the comparison of three quotations should be followed.

Contracting of Staff

For the contracting of staff, the same key components of the competitive selection process mentioned above apply. The Board will prepare in advance of each contracting process a comprehensive tender document that specifies details of timelines, application and evaluation procedures.

3.4 Environmental Safeguards

The Objectives of the Fund include administration of the Fund assets to provide a sustainable flow of funds to supplement existing and future funds from any source to enable the Fund to promote the maintenance and growth of the Galápagos Islands' natural capital by making grants or impact investments to non-profit organizations, community-based organizations, civil society organizations, government agencies for relevant environmental and sustainable development projects as informed by biodiversity, social, sustainability and climate change impact needs assessment and therefore, are expected to generate significant positive environmental benefits in conserving the natural integrity and biodiversity of the Galápagos. This may be achieved through a range of activities, including without limitation, direct investments in the sustainable use and conservation of coastal and marine resources; restoration of sensitive ecosystems such as sand dunes, mangroves, beach zones which have been degraded; and environmental guidelines for tourism operations related to diving, snorkelling, non-motorized sports, and small infrastructure works (such as a visitor center or boardwalk). Implementation of these activities may have adverse environmental consequences, including without limitation damage to coral and reef systems from mismanaged activities, disturbances to bird, mammal, and fish species from poor tourism practices, and noise, dust and air pollution from small infrastructure works (such as a visitor center and boardwalk). These adverse environmental impacts are expected to be minor, localized and preventable through responsive mitigation measures. An initial screening for potential environmental impacts associated with the design, construction, and use of any activities using environmental guidelines and the identification of measures to mitigate the impacts identified, must be undertaken by proponents at the national level consistent with this Operational Manual. Environmental assessments would be conducted as needed.

Additionally, the Fund will adhere to the Environmental and Social Action Plan (ESAP) once it has been finalized.

3.5 Social Safeguards

The proceeds of the Fund are expected to catalyse positive social outcomes, for example, related to the improvement of natural resource and environmental conditions and potential economic benefits to local populations from improved tourism and other economic opportunities. However, there may be some potential nonphysical (economic) displacement issues associated with possible restrictions on resource use in, and access to, core areas of protected/managed areas. Some livelihood activities may be adversely impacted in protected/managed areas, including, without limitation, the limiting of fishing areas through zoning, limiting fish catches, banning certain fishing techniques, or restricting certain types of fishing. In addition to those engaged in

fishing, tourism operators and vendors, and resource extractors and harvesters (e.g. corals, sand, etc.) may also be adversely affected. For terrestrial Protected Areas, livelihoods of tourism operators and vendors, farmers, hunters, and resource extractors (e.g. timber, firewood, plants), among others may be adversely impacted. It should also be noted that some restrictions on livelihoods may currently exist but are often not regularly enforced due to capacity constraints. Hence, due to the overall conservation strategy of the Fund, it may be necessary that persons or communities change some ongoing negative practices, such as limiting or restricting or prohibiting the use of certain areas or resources. the Fund would address this issue by: (a) ensuring stakeholder consultations are carried out; (b) providing guidelines to proponents to include sustainable development action plans which would harmonize social strategy with conservation practices to offer sustainable alternatives to substitute damaging practices; and (c) undertaking adequate monitoring and evaluation to verify adoption of these guidelines.

Additionally, the Fund will adhere to the Environmental and Social Action Plan (ESAP) once it has been finalized.

4. INVESTMENT OF FINANCIAL ASSETS

The Fund will receive semi-annual payments pursuant to the Conservation Funding Agreement, dated [____], from a special purpose vehicle created to finance conservation activities on the ground and to capitalize an endowment (see attached payment schedule). The endowment will be invested to generate long-term sustainable financing for carrying out the Fund's objectives once the Conservation Finance Agreement payments end (after 18 years). The Fund may perform the same function with respect to other contributions as and when they are made available to it.

4.1 Investment Policy

Exhibit 6 to this Operational Manual defines the broad lines of the philosophy that will guide the Fund in investing its capital. The Fund relies on the financial expertise of its Finance Committee to develop the investment policy and guidelines, as well as spending policy, which shall be discussed and considered for approval by the Board.

4.2 Investment Management Performance Evaluations

The Board, in consultation with its Finance Committee, is responsible for evaluating the investment consultant's or investment manager's performance. The Board assumes this responsibility through annual meetings with the investment consultant or investment manager, and the Finance Committee carries out this responsibility through quarterly examinations and discussion of current year and cumulative results in comparison with a target portfolio and reference indices, by teleconference or physical meetings.

5. ACCOUNTS AND AUDITS

5.1 Fiscal Year

The fiscal year of the Fund shall begin on January 1 and end on December 31 of each year, with the exception of the year in which the effective date of the Fund Bylaws

occurs, such fiscal year to be the effective date until December 31 of the following year (e.g. the Fund's first fiscal year will run from the effective date the Fund Bylaws is passed until December 31, 2023).

5.2 Bank Accounts

The Board shall establish such Bank Accounts as it shall deem necessary for the operation of the Fund. At least one such Bank Account shall be established where moneys belonging to the Fund associated with day-to-day accounts shall be deposited. Proper accounts shall be kept of all sums of money received and expended or invested in any form by the Fund and of the matters in respect of which such receipts, expenditures or investments take place and the assets and liabilities of the Fund. The Bank Accounts of the Fund shall be subject to inspection by the Directors.

5.3 Investment Account (Endowment Fund)

The Board shall establish an investment management account to invest the assets of the endowment fund. As may be further specified in the Operational Manual and the Investment Policy. The Investment Accounts, including income and capital gains generated thereon, shall be invested by an internationally recognized investment manager selected by the Board through a transparent and competitive public tender process, subject to the approval of a Special Majority Vote. All investments of the Fund's assets shall be made in accordance with the Investment Policy.

The Board shall require the manager(s) of the Investment Accounts to submit to the Board, on a minimum quarterly basis, regular reports showing overall portfolio value, investment holdings, including asset ratings, portfolio diversification, earnings (or losses) for the period and the year, prior period comparisons, distributions to the Fund, and fees and other details as requested by the Board or the Executive Director. The Investment Accounts shall be subject to inspection by the Founding Member Directors and the Non-Government Directors, subject to reasonable restrictions provided by resolution of the Board.

5.4 Accounts

The Executive Director and his or her staff are responsible for keeping the accounts and for producing statements at the end of the financial year that present a true and fair value of the Fund's worth. The statements comprise: (1) a Statement of Financial Activity ("SOFA"); (2) a balance sheet and (3) explanatory notes that explain in more detail how income and expenditure is made up and gives extra information about particular assets and payments.

5.5 Audits

The Accounts are subject to an annual audit to provide independent scrutiny of accounts. In accordance with donor requirements, the auditor should be a registered auditor.

Audit terms of reference will specify that the Auditor will (i) be a "registered auditor" who is registered with a recognized supervisory body; and (ii) use accounting

recommendations and guidance of the Statement of Recommended Practice (“SORP 2005” attached hereto as Exhibit 8).

The Auditor shall conduct annual audits for a period of three consecutive fiscal years at which time the Board will select a new Auditor.

Per the terms of the Grant Agreement, grantees must appoint an independent external auditor of internationally recognized standing and competence to audit the financial accounts of the grantee on an annual basis. Grantees must provide to the Fund such auditor’s completed annual report.¹

6. REPORTING

6.1 Donor Requirements

The Fund is responsible for making various documents accessible to the Donors. In line with its obligations under the Grant Agreements signed with each Donor, the following documents must be made readily available:

Documents to be provided to Donors²

Recipient	Document	Submission Date
TBD	Investment Manager’s Reports	Quarterly within 45 days of the close of the financial quarter.
TBD	Audited Financial Statements	Annually, within six months of the close of the financial year.
TBD	Annual Report	Within six months of the close of the financial year.
TBD	Narrative and financial reports on activities financed by grants	Narrative reports should be issued quarterly, within 45 days of the close of the financial quarter. Interim unaudited financial reports should be issued quarterly, within 45 days of the financial quarter.

¹ For informational purposes only. The financial statements of the grantees will not be consolidated with the financial statements of the Fund. There need not be any relationship between the Fund’s auditor and the auditors of the grantees.

² The method of public dissemination will be determined by the Fund Board of Directors.

6.2 Other Reporting Requirements

Reference	Item	Timeframe	Deadline
FESA - Schedule Y Part D(b)(vi) (<i>Office of Development Policy Requirements</i>)	OFC and GLF will explain, document and make available in writing all terms of employment and information regarding working conditions for each Worker	30 days following the Effective Date	9 June 2023
FESA - Schedule Y Part D(i) (<i>Office of Development Policy Requirements</i>)	OFC shall provide an updated version of the Environmental and Social Impact Assessment	90 days following the Effective Date	8 August 2023
FESA - Schedule Part D(l) Y (<i>Office of Development Policy Requirements</i>)	GLF shall execute the Social Safeguards Contracts	100 days following the Effective Date	18 August 2023
FESA - Section 4.03(c)(i) (<i>Project Manager Covenants</i>) CFA - Clause 13 (<i>GLF Founding Member Covenants</i>)	OFC will use reasonable efforts (to DFC's satisfaction) to procure that the GLF Accession Conditions (as set out in clauses 2.1 - 2.8 of the CFA) are met	Within 6 months of the date of the FESA	27 October 2023
FESA - Section 4.01(d)(ii) (<i>GLF Covenants</i>)	GLF will engage an internationally established and recognized accountant	Within 6 months of the establishment of GLF	5 November 2023
FESA - Section 4.01(k)(i) (<i>GLF Covenants</i>)	GLF will open the Endowment Account	Within 6 months of the establishment of GLF	5 November 2023
FESA - Section 4.01(k)(ii) (<i>GLF Covenants</i>)	GLF will appoint an internationally established and recognised independent investment manager	Within 6 months of the establishment of GLF	5 November 2023
FESA - Section 4.01(l) (<i>GLF Covenants</i>)	GLF will set up a website	Within 6 months of the establishment of GLF	5 November 2023
SCA - Schedule 1 (<i>Sustainability Commitments</i>) Para 7	The Ministry of Environment, Water and Ecological Transition will appoint its representative to the board of GLF	Six months from the Settlement Date	9 November 2023
FESA - Schedule Y Part D(x) (<i>Office of Development Policy Requirements</i>)	GLF shall deliver the Results Table to DFC	Six months from the Effective Date	10 November 2023
FESA - Section 4.01(f)(vi)(H)(a) (<i>GLF Covenants</i>)	GLF will provide copies of the Impact Report, Project		30 June 2024

7. EVALUATIONS

The Board may, at its discretion, request that the Fund be the subject of an independent evaluation covering any or all of the following: the effectiveness of its governance structures, grant-making operations and impact on conservation.

The Fund may itself be designated to be the subject of an independent evaluation that could cover the Fund alone, and/or the Fund and one or more grantee. In such a case, the Fund and the relevant grantee(s) must make all requested information readily available to, and cooperate fully with, the evaluators.

EXHIBIT 1

EXHIBIT 2
CONFLICTS OF INTEREST POLICY
for the Galápagos Life Fund

EXHIBIT 3
TERMS OF REFERENCE - THE FUND EXECUTIVE DIRECTOR

EXHIBIT 4
GALÁPAGOS LIFE FUND BYLAWS

**EXHIBIT 5
GRANT AGREEMENT**

between

THE GALÁPAGOS LIFE FUND

and

GRANTEE

EXHIBIT 6
THE FUND INVESTMENT POLICY

EXHIBIT 7
SAMPLE FINANCIAL REPORT



Sample Financial
Report.xls

EXHIBIT 8
ACCOUNTING AND CHARITIES: STATEMENT OF RECOMMENDED
PRACTICE

