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REGIONAL

**EQUITY INVESTMENT
ECOENTERPRISES BIO DIVERSITY FUND TO SUPPORT THE NAGOYA
PROTOCOL THROUGH IMPACT INVESTING**

(RG-Q0038/ RG-T2910)

DONORS COMMITTEE MEMORANDUM

Original: English

This document was prepared by the project team composed of: Martha Lucía Muñoz (MIF/CCO) and Paola Pedroza (MIF/IC), co-Team Leaders; Dieter Wittkowski (MIF/CPE); Laura Fernandez (MIF/CSA); and George Rogers (GCL/GCL).

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TABLE OF CONTENTS

Contents

EXECUTIVE SUMMARY	6
I. MIF ELIGIBILITY.....	1
II. BACKGROUND AND PROBLEM DEFINITION.....	1
III. THE FUND	9
A. Objectives and Description	9
B. Investors	14
C. Management Company	14
D. Fee Structure and Operating Expenses	19
E. Terms of the Investment	20
IV. PROJECT IMPACT, KNOWLEDGE AND COMMUNICATION STRATEGY	23
V. RISKS AND CONSIDERATIONS	25
VI. EXCEPTIONS TO BANK POLICY	27

ANNEXES

Annex I Logical Framework

INFORMATION AVAILABLE IN THE PROJECT ARCHIVES

Annex II Financial Model and Projections

Annex III Integrity Check

EQUITY INVESTMENT: ECOENTERPRISES FUND 3 TO SUPPORT THE NAGOYA PROTOCOL THROUGH IMPACT INVESTING

(RG-Q0038/ RG-T2910/ RG-T2926)

Currency: Dollars of the United States (US\$)

ACRONYMS

ABS	Access and Benefit Sharing (ABS) on genetic resources
AFSR	Annual Fund Supervision Report
ANDE	Aspen Network of Development Entrepreneurs
Sharing (ABS) on genetic resources	
BoP	Base of the Pyramid
ESR	Environment and Social Review
FMO	Dutch Development Bank
GEF	Global Environment Fund
GIIRS	Global Impact Investing Rating Systems
IC	Investment Committee
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMC	Impact Committee
IFRS	International Financing Reporting Standards
ILPA	Institutional Limited Partners Association
IPEV	Private Equity and VC Valuation Guidelines
IPO	Initial Public Offering
IRR	Internal Rate of Return
LAC	Latin America and Caribbean
LAVCA	Latin American Venture Capital Association
LPAC	Limited Partners Advisory Committee
LPs	Limited Partners
MIF	Multilateral Investment Fund
mm	Millions
PE	Private Equity
SME	Small and Medium Enterprise
TA	Technical Assistance
UEBT	Union for Ethical Biobanking
US\$	United States Dollars
USA	United States of America
VC	Venture Capital

PROJECT SUMMARY

Through this project, the MIF intends to support the Nagoya Protocol¹, a key element to the United Nations Convention on Biological Diversity through EcoEnterprises Biodiversity Fund, an impact investing pioneer in the region. The intended result of the project is to provide growth financing to up to 18 sustainable and biodiversity-focused companies by helping them to grow, consolidate their business, and scale their operations and impact results. The businesses will be in countries in the region that have identified Access and Benefit Sharing (ABS) on genetic resources related to biodiversity as a national priority. The Project will help to preserve natural resources and to create the conditions necessary for sustainable and inclusive economic growth and prosperity.

EcoEnterprises Biodiversity Fund, targeted to be an US\$80mm investment fund, will offer tailored growth capital to compelling innovative business models whose success relies on: (i) creating long-term livelihoods by increasing productivity and facilitating resilience in rural communities, while encouraging sustainable use and conservation of natural resources; (ii) preserving vulnerable ecosystems and biodiverse working landscapes, and (iii) mitigating climate risks with special attention to fair economic benefits to local value chains.

The Fund will target biodiversity-focused companies with an initial capital requirement between US\$2mm and US\$6mm, established revenue streams, a market-validated product offering, and a proven business model. The Fund will help those companies scale, offering flexible growth capital tailored to their specific needs, using the following instruments: Mezzanine structures with quasi - equity upsides (royalty streams, warrants, convertible notes), equity and senior, subordinated and/or other tailored debt.

The Fund will work with Union for Ethical Biobanking (UEBT) through technical advisory help to showcase, shepherd and invest in SMEs sourcing from nature-based products and interested in aligning their businesses models with the Nagoya Protocol. The MIF will commit up to US\$5mm in equity investment. The GEF will provide through the MIF US\$10mm in equity investment. As the anchor investor, MIF will have a key role in structuring the Fund in accordance with IDB environmental and sustainable development objectives, and its investment will offer private and other investors' confidence in the Fund's implementation. In addition to the MIF and GEF other potential investors include The Nature Conservancy, the European Investment Bank, the Agence Française de Développement, the Dutch Development Bank (FMO) and Hivos-Triodos Fonds, subject to each of their internal approvals.

¹ The Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization (ABS) to the Convention on Biological Diversity is a supplementary agreement to the Convention on Biological Diversity (CBD). It provides a transparent legal framework for the effective implementation of one of the three objectives of the CBD. The Nagoya Protocol on ABS was adopted on 29 October 2010 in Nagoya, Japan and entered into force on 12 October 2014. Its objective is the fair and equitable sharing of benefits arising from the utilization of genetic resources, thereby contributing to the conservation and sustainable use of biodiversity.

EXECUTIVE SUMMARY

EXECUTING AGENCY:

The Fund will be managed by EcoEnterprises Capital Management, LLC, the Management Company.

BENEFICIARIES:

Up to 18 sustainable and biodiversity-focused companies located in the target regions (Meso-America, Northern Andes, and the Amazon Basin), each with annual sales revenues from US\$1 to US\$10mm. The target sectors include: sustainable agriculture (including apiculture, aquaculture and water), agroforestry and wild-harvested products, sustainable forestry, ecotourism, and emerging opportunities, such as those that monetize environmental benefits and/or utilize technology for impact, and/or capitalize on emerging demand for sustainable products.

OBJECTIVES:

Financial objective. EcoEnterprises Biodiversity Fund has stated that it expects to generate a 12% net IRR (See Annex II). The MIF's analysis considered a more conservative scenario with a 10% default rate which led to a 10.47% net IRR, an acceptable performance range that would be acceptable given the level of risk of the Fund.

Expected results. Some of the outputs expected from the implementation of this Fund include: (i) up to 18 companies receiving investments from the Fund; (ii) US\$68.3mm of additional investments mobilized into the fund; and (iii) environmental and social impact benefits presented in the logical framework.

PROJECT COST AND FINANCING:

The Fund's target capitalization is US\$ 80mm:

Expected Investors ²	Amount (US\$)
MIF	5,000,000
GEF	10,000,000
Hivos-Triodos Fonds	3,000,000
European Investment Bank	20,000,000
FMO	6,000,000
Common Fund for Commodities	1,000,000
Other private investors (including current Fund II foundations, Impact Assets, family offices, etc.)	7,000,000
The Nature Conservancy	2,000,000
Norfund, Proparco and/or Obviam	20,000,000
Dutch Family Office	6,000,000
<i>Total: Expected Commitments</i>	<i>80,000,000</i>

The minimum total commitments necessary to start operating the Fund is US\$40mm. The MIF investment, alongside the GEF investment, will be catalytic to other potential investors coming into the Fund.

MIF equity investment. The MIF is requesting an approval of an equity investment in the Fund in the amount of US\$5mm.

² An "expected investor" is an investor with whom the fund managers have made contact, who has expressed an interest in investing in the Fund, or is currently seeking approval of the investment from its own internal committees (similar to the MIF project approval process).

GEF equity investment. The MIF is requesting an approval of an equity investment in the Fund from the GEF in the amount of US\$10mm³.

**PROJECT
DESCRIPTION:**

EcoEnterprises Biodiversity Fund (Fund) will provide growth capital to up to 18 innovative, compelling businesses biodiversity-focused SMEs, which promote ethical sourcing and trading practices, create long-term livelihoods by sustainably increasing productivity for local communities and boost resilience in rural value chains, while adapting producing processes or mitigating climate risks, preserving vulnerable ecosystems and encouraging the sustainable use and conservation of natural resources. The Fund in cooperation with the Union for Ethical Biobased Trade (UEBT) will support these companies in the implementation and rollout of formalized, Access and Benefit Sharing (ABS) mechanisms, and monitor progress made over time, helping to boost the long-term fair and equitable sharing of any resulting benefits. This will allow local communities to profit from growing sustainable business models, and achieve long-term income that helps protect their traditional lifestyles. Lastly, UEBT promotes ABS with government and policy makers and the Fund will target those countries with encourage and facilitate such mechanisms.

The Fund will have a ten-year life, with a five-year Investment Period and a five-year Divestment Period. The term of the Fund may be extended by a majority vote of the Fund ownership for up to two (2) additional one-year periods.

The Fund will target emerging companies with an initial capital requirement between US\$2mm and US\$ 6mm, established revenue streams, a market-validated product offering, and a proven business model. The Fund will help those companies scale, offering flexible growth capital tailored to the companies' specific needs, using the following instruments: Mezzanine structures with quasi-equity upsides (royalty streams, warrants, convertible notes), equity and senior, subordinated and/or other tailored debt. The Fund will employ prudent diversification and risk mitigation strategies, including capital concentration limits. The maximum investment in a single company will not exceed 12% of the Fund's total capitalization.

The Fund will establish long-term, value-adding partnerships with its portfolio companies. It aims to participate in the Board of Directors of each company and will be actively involved in each companies'

³ GEF resources are provided to the IDB in its capacity as an implementing agency of the Global Environment Facility (GEF). The MIF Donors Committee has authority to approve GEF funding for MIF projects in accordance with Resolution DE-11/14 of March 5, 2014. Donors Committee approval of the GEF funded equity portion of the project is subject to an expected final CEO endorsement/approval of certification of funds by the GEF.

strategy development, capacity building and key decision making, closely monitoring each of them.

The governance structure of the Fund will include a Limited Partner Advisory Committee (LPAC), an Investment Committee (IC) and an Impact Committee (IMC). The MIF will participate as a member in the LPAC and will be an observer in the IC, with full rights to the same information as the voting members. The IC will consist of three members: two independent members in addition to one member from the management team. All the decisions of the IC shall be made by majority vote.

MANAGEMENT: The Fund will be managed by EcoEnterprises Capital Management, LLC. The Management Company will be responsible for raising the capital for the Fund. The management agreement will guide the Management Company's obligations to the Fund. The Management Company will be responsible for the Fund's day-to-day management including: (i) promoting the Fund to potential investees; (ii) developing investment procedures based on agreed guidelines (iii) providing investment identification, analysis and recommendations for the Investment Committee; (iv) performing due diligence on each potential investee company; (v) negotiating and closing investments by the Fund; (vi) monitoring financial and technical aspects of the Fund; (vii) monitoring and reporting on Fund investments; and (viii) engaging in the design and implementation of effective exit strategies for each Fund investment.

The management fee will be up to 2.5% per annum over committed capital during the investment period. After the investment period the fee will be up to 2.5% per annum over the amount of invested capital remaining in the portfolio (in both cases net of any exits and write-offs), consistent with market standards.

ENVIRONMENT AND SOCIAL ISSUES: This project has been classified as category B13 by the Environment and Social Review (ESR) on (pending date), 2016.

UNIT WITH DISBURSEMENT RESPONSIBILITY: MIF/CSA Headquarters and CCO/MIF

EXCEPTIONS TO BANK POLICY: None.

I. MIF ELIGIBILITY

- 1.01 The MIF's participation in this project is consistent with its mission to solve economic development problems in Latin America and the Caribbean through increasing private investment and encouraging innovative market-based solutions that boost sustainable economic activity and climate change initiatives in the region. This project is aligned with the MIF's Climate-Smart Agriculture (CSA) Pillar, because it supports the development of agricultural strategies that boost productivity, increase resilience along the value chain, contribute to climate mitigation, and develop markets for environmental preservation. It will: (i) enhance sustainable agricultural development -- crops, livestock, forestry, fisheries and aquaculture; (ii) strengthen the positive impact of agricultural value chains on small producers through ethical and fair practices and agriculture-based SMEs mainly through an increase in market access and resilience; (iii) protect the environment through the adoption of climate-smart practices, implementation of data analytics in land use, weather, and farm-level productivity; and (iv) help test and scale business models created by scale-up companies that address economic, and environmental problems in innovative sectors, such as bio-tech crops, conservation tillage, drip irrigation, non-timber forest products, precision agriculture, ecosystem services, and ecotourism. In this line, the project addresses three import aspects of the CSA approach: improving productivity, adapting to climate change, and mitigating GHG emissions.
- 1.02 **CSA as a priority area of the IDB Group.** Given its significance and development potential for the region, the agricultural sector is a focus area for the Bank as evidenced by both the IDB and IIC's strategic importance given to the sector. The project aligns not only with the Bank's strategic goals, but also with the broader set of Sustainable Development Goals that world leaders agreed upon at the United Nations summit last year to replace the original Millennium Development Goals which expired in 2015. The SDGs are designed to protect our planet for future generations, to preserve natural resources and to create the conditions necessary for sustainable and inclusive economic growth and prosperity⁴.

II. BACKGROUND AND PROBLEM DEFINITION

- 2.01 **Growing agricultural demand increases pressure on habitats and ecosystem services.** As global populations and economies grow, a spiking demand for agricultural outputs has intensified the risk of overexploitation of the Earth's natural resource base and the destruction of vulnerable ecosystems

⁴ The Sustainable Development Goal that best reflects the need to enhance activities like those of EcoEnterprises Fund is Goal 2 to *end hunger, achieve food security and improved nutrition and promote sustainable agriculture* by improving agricultural productivity and incomes of small-scale food producers, and by implementing resilient agricultural practices that help maintain ecosystems, adapt to the effects of climate change (including extreme weather, drought, flooding and other disasters) and progressively improve land and soil quality.

and habitats. By 2050, global population is expected to reach 9.9 billion, up 33% from 7.4 billion today, a trend that is mainly driven by rapid growth in some of the least developed nations of the world and that will boost global food demand and increase food insecurity in many regions of the world. Global food production will have to increase by at least 60% by 2050, if future demand is to be met. On top of the increase in food production, several other factors fuel demand for agricultural outputs. Agriculture is an important source of fiber, energy, fuel, and industrial raw materials, and the demand for these uses is continuously growing.

- 2.02 Boosting agricultural productivity, e.g. through improved methods to grow and process crops, more efficient water usage, the introduction of science-based and information technologies, or the expansion of rural infrastructure and the implementation of sustainable, climate-smart agricultural practices will be key to ensuring maximized outputs and long-term resilience of the agricultural sector while at the same time protecting vulnerable, biodiverse ecosystems and landscapes as well as conserving related resources, specifically water.
- 2.03 Growing agricultural output to meet rising global demand and achieve food security will require increasing the rate of annual productivity growth to at least 1.75%, an increase of 25% per year⁵. The current productivity gap between low and high productivity firms in LAC has been estimated at 22%. Smart-rising agricultural productivity reduces the pressure on natural resources and allows to freeze or even shrink the sector's environmental footprint. The challenge for 21st century agriculture is to do more with less, through the use of technological innovation combined with agricultural research and the implementation of best farming practices.
- 2.04 In 2015, the World Economic Forum rated water scarcity to pose a greater global risk than terrorism, financial crises, or even global warming. By 2050, demand for water worldwide will be 55% higher than in 2000, while water supply will become less secure. Today, agriculture already uses 70% of the world's extracted freshwater and is extremely vulnerable to interruptions of supply due to pollution, changing rainfall patterns and deforestation. The sector's water usage is projected to rise to 89% of all extracted freshwater by 2050, further increasing pressure on natural ecosystems.
- 2.05 **Poverty and unjust benefit sharing increases the risk of overexploitation and unsustainable use of natural resources.** Globally, more than 2.5 billion people depend on agriculture and local biodiversity for their livelihood. In Latin America, around 80% of agricultural production is generated by smallholder farmers that are most vulnerable to the loss of natural resources due to overexploitation, changing market conditions or natural disasters, according to ALASA (Asociación Latinoamericana de Seguros Agrícolas). At the same time, unsustainable subsistence farming itself often endangers the long term viability of the natural resource base, e.g. causing 48% of global deforestation thus accelerating soil degradation, undermining carbon

⁵ [Global Harvest Initiative](#), 2010 Global Agricultural Productivity Report.

sequestration and contributing to erosion, floods and mudslides. Though conservation efforts continue to gain traction to address challenges, many communities living in or near critical habitats and watersheds, faced with a daily struggle to survive, not only lack the financial means to invest in the preservation of local ecosystems but also have no economic incentive to adopt alternate methods of development as they are not receiving a fair and equitable share of benefits arising from the utilization of natural genetic resources from their region.

- 2.06 Fostering community based business models that enable BoP communities to equitably participate in agricultural value in accordance with the Nagoya Protocol is a key element of implementing sustainable change in the agricultural sector, boosting downstream economic benefits in agricultural supply chains and incentivizing local stakeholders to actively promote agricultural practices that would remedy environmental degradation and encourage the conservation and sustainable use of natural resources.
- 2.07 **Climate change accelerates biodiversity loss and threatens agricultural value chains.** Climate change is the pivotal issue of our time. In addition to warming temperatures, more frequent extreme weather events and changing patterns of rainfall and drought can be expected to have significant impacts on biodiversity, natural ecosystems and ecosystem services. Climate change is threatening vulnerable species, damaging food chains upon which both animals and humans depend and putting ecosystem services such as watersheds at risk and is projected to become a progressively more significant threat in the coming decades. E.g., for each degree Celsius of global warming, there will be a grain crop yield loss of approximately 5%⁶, directly increasing food insecurity, malnutrition and poverty.
- 2.08 Conservation of biodiversity is key to moderating the scale of climate change and reducing its negative impacts by making ecosystems - and therefore human societies - more resilient. Identifying and implementing relevant adaptation and mitigation strategies such as climate smart agricultural strategies, that contribute to remediating degraded land, planting resilient agro-forestry systems, conserving forested land, or improving water resources will be paramount.
- 2.09 **Comparative advantage.** Unlike other parts of the world, LAC is the only region on track for meeting its local food demand by 2050⁷. With one third of the world's fresh water resources, some of the Earth's most biodiverse ecosystems and with 28% of the world's potentially suitable land for agricultural expansion, the natural resources of the region represent a comparative advantage that should be leveraged wisely. Mainstreaming

⁶ [World Bank Group Agriculture Action Plan 2013-2015.](#)

⁷ Based on Truitt Nakata, Ginya The next global breadbasket: how Latin America can feed the world: a call to action for addressing challenges and developing solutions, 166% of total food demand can be met if the LAC region maintains its current TFP growth rate.

biodiversity conservation into productive sectors by investing in Small and Medium Enterprises (SMEs) with a vested interests in sustainable management of natural resources and indigenous genetic material, strong community ties and ethical sourcing and trading mechanisms in line with the Nagoya protocol is imperative in order to permanently and responsibly reduce pressures on globally-important "natural capital".

- 2.10 Of particular interest are SMEs that operate near regions of important flora and fauna and/or form part of value chains that connect users and providers of nature-based products or genetic resources. Even though a confluence of global trends, such as a rapid growth in organic sectors and increasing willingness of global consumers to pay more for sustainable goods, has created a unique opportunity to invest in and scale these types of SMEs several key barriers remain.
- 2.11 A confluence of global trends has created a unique opportunity to invest in and scale financially sustainable businesses that also address social and environmental concerns. Leveraging these small community-based private sector companies allows to drive sustainable development in Latin America and achieve financial returns alongside significant positive impacts. Some of these trends are: (i) a rapid growth in organic sectors - worldwide, organically managed land has increased from 11mm hectares in 1999 to 43.7mm hectares in 2015. One third is today located in developing countries, primarily Latin America; (ii) leadership in agroforestry systems – in a global comparison, the proportion of agricultural population living and working in agroforestry areas is highest in Central America and South America, with over 80%⁸; and (iii) 66% of global consumers are today willing to pay more for sustainable goods versus 50% two years ago.⁹
- 2.12 **Lack of financing.** One key barrier for nature-based SMEs to gain strength and grow their operations while protecting the biodiversity of the region is access to suitable capital. Existing funding sources are not currently designed to assist these particular companies, mainly because the available lending mechanisms tend to concentrate on either small amounts, insufficient for the needs of such companies or, too large amounts for such companies to access. The businesses have been deemed “the missing middle,” trapped between micro-enterprises, benefitting from microfinance institution support, and the larger, more established businesses that can attract commercial credit through the conventional capital markets because of their lower risk profile. Companies determined to conserve nature face additional obstacles to access financing due to their unique innovative nature, and primary operations in rural areas in partnership with BoP communities. The Fund’s objective would be to break this funding barrier by providing investment capital and technical assistance to such companies.

⁸ Global forest area in LAC decreases each year, but the rate of deforestation has been cut over 50% in the last 25 years as more countries aim to protect and improve their forest management.

⁹ The Sustainability Imperative, Nielsen, October 2015.

- 2.13 Even though some countries in the region have ranked on the top of the 2015/2016 LAVCA Scorecard¹⁰ for having conducive policy and regulatory environments for VC and PE investors, there are still significant financing gaps in the region that need to be addressed. In addition, more investors today are concerned about the increased risk profile of agricultural investments due to the exposure to the effects of climate change. It is therefore still critical to attract more risk-taking investors to consolidate the industry. The financing strategy will make use of a whole array of financial tools available (including the climate funds) to address bottle necks preventing adapted financing mechanism flowing into the sector. It is also important to incentivize longer-term investments needed in areas such as land-use and forestry – areas traditionally underserved by traditional finance.
- 2.14 **Need for technical assistance to boost productivity and resilience of agricultural value chains.** Increasing agricultural outputs to meet rising global demand and achieve food security will require boosting the rate of annual productivity growth by at least 25% per year. To do so sustainably, best-in-class examples of highly productive, sustainable agricultural business models need to be identified and scaled, while a transfer of lessons learned needs to be facilitated to less productive enterprises in the region. SMEs will benefit from technical assistance that bolsters agricultural productivity through the use of technological innovation, agricultural research and the implementation of best-in-class, climate smart farming practices. Addressing this barrier is key to effectively reduce the pressure on natural resources and allowing freezing or even shrinking the sector's environmental footprint.
- 2.15 **Lack of Access and Benefit Sharing (ABS) related know-how and implementation strategies.** When looking at SMEs under the lens of the Nagoya Protocol on ABS, there are two relevant groups: 1) those companies actively taking part in the production and valorization of genetic resources by means of research and development, and 2) companies that are part of value chains linking users and producers of these genetic resources. In both groups, examples can be found of companies that are proactively putting in place policies and practices to be in line with national ABS norms and/or the core provisions of the Nagoya Protocol. The majority of SMEs in the region, however, has still a significant information need regarding exact implications of ABS norms on their business models and/or best strategies to adjusting policies and practices to comply with and take advantage of newly emerging opportunities under the new Protocol. That means, adhering to the basic principles of Prior Informed Consent (PIC), Mutually Agreed Terms (MAT) and Benefit Sharing (BS) when users and providers of genetic resources engage in ABS negotiations.
- 2.16 **EcoEnterprises Fund Response.** Aware of this outlook, EcoEnterprises Fund, a pioneer impact investment manager offers tailored growth capital to compelling innovative businesses: (i) creating long-term livelihoods and

¹⁰ <http://lavca.org/2015/07/14/20152016-scorecard/>

facilitating resilience in rural communities, while encouraging the sustainable use and conservation of natural resources; (ii) preserving vulnerable ecosystems and biodiverse working landscapes, and (iii) mitigating climate risks with special attention to fair economic benefits to local value chains. Applying tools and principles of venture financing, the Fund would help SMEs scale financial and impact outcomes.

- 2.17 The EcoEnterprises Fund undertakes a proactively engagement with its investees to improve their results. Such activities includes participation on Boards of Directors, hands-on technical assistance on social and environmental issues, special assignments on financial management, strategic planning, operational efficiencies, or the analysis of raw material supply chains. The Fund will utilize its extensive group of experts to carry out these activities. EcoEnterprises Biodiversity Fund will not only continue to offer this support in cooperation with a deep partner network, but also will specifically work with the Union for Ethical BiTrade (UEBT) on Nagoya-related opportunities. UEBT, highly respected by the business and governmental communities for its understanding of issues related to rural community access to fair and equitable sharing of benefits of nature-based products.
- 2.18 The UEBT is a member based non-profit association that promotes ‘Sourcing with Respect’ of ingredients that come from biodiversity. Members adopt sourcing practices that advance sustainable business growth, local development and biodiversity conservation. All members of the Union are required to commit to gradually bringing their practices in line with Ethical BioTrade Principles. UEBT through certifications, verification systems and providing advising services, aims to help companies negotiate the regulatory minefield of trading with local producers all over the world, while ensuring that benefits reach all of those involved. UEBT was created in 2007 as a spin off from the United Nations to promote business engagement in biotrade and members commit to support the 2020 United Nations Biodiversity targets. UEBT is a key partner to do the linkage with market and anchor companies while the Fund connects with the supply side, applying its 20 years expertise in creative finance structuring to support growing business in value chains centered in biodiversity and sustainability, involving local rural populations and indigenous people.
- 2.19 This partnership is interesting for the GEF and the MIF. It is aligned with both institutions’ goals and generates an added value to the third fund, guaranteeing not only the link to the market for the growing enterprises, but also the generation of deals adapted to ethical and sustainable principles by aligning partners rationales. At a broader level, no other investment fund currently exists which specifically offers financing for companies working under the Nagoya Protocol. If successful, this Fund can serve as a bellwether to establish more mechanisms and financing instruments in other regions. Importantly, by investing in biodiversity-focused business, this Fund will pave the way for future growth in the sector, scaling and strengthening companies in with knowledge and experience about the Nagoya Protocol.

- 2.20 Investment opportunities of Eco Enterprises Biodiversity Fund include: (i) conversion from traditional agriculture to sustainable or organic practices; (ii) expansion of small producer farms and implementation of irrigation or other climate smart agriculture enhancements, and transition from traditional forestry to certified sustainable forestry; (iii) development and improvements in production and processing, product diversification with manufacturing of semi-processed products; (iv) advancements for marketing, distributions channels, and product development with research and technology (as deemed under the Nagoya Protocol); (v) increases in aquaculture nurseries and production of seedlings; (vi) conversion from wild catch practices to sustainable fishing; (vii) construction and environmental upgrades of ecotourism lodges, tours and attractions; linking enterprises with new markets and distributions channels; (viii) scale-up of existing operations and/or regional expansions; (ix) fueling brokering companies representing producer groups and linking rural communities to markets for harvested products. The Fund will focus primarily in the following sectors:
- 2.21 *Agriculture.* It accounts for 25% of Latin America's economic activity and for over 40% of its exports. Production in the LAC region is projected to grow 80% from 2007 to 2050 highlighting the need for a broad roll-out of sustainable, climate-smart practices that do not only increase productivity but also boost resilience and crucial positive externalities such as environmental services (e.g. water storage or carbon sequestration) and the maintenance of rural landscapes. Increasing productive areas through sustainable agricultural practices will have to be accompanied by new technologies and innovation that maximizes the efficient use of resources along the agricultural value chain. Small and large producers are the most critical actors in implementing and sustaining this change and must specifically undertake activities to adapt to and mitigate climate change effects.
- 2.22 *Sustainable Aquaculture production* is one of the fastest growing sub-sectors of agriculture, creating a need for sustainable production methods. Fishing is the fastest growing food production system in the world. Aquaculture, or sustainable fisheries, has emerged as a viable industry as demand for fish and other marine and aquatic species continues to increase while fishery stocks are being exploited or over exploited. Aquaculture provides the ability for the continued production of fish, while reducing the pressure on wild stocks. The consumption of fish supports the shift of environmentally friendly protein options, resulting in the least greenhouse gas emissions and less water and feed consumed.
- 2.23 *Agroforestry* as one of the most effective means to reconcile environmental goals, sustainable livelihoods and growing agricultural production. Agroforestry allows generation of agricultural income streams, while not impacting existing forests and maintaining full natural tree coverage. It is a key element of climate-smart agricultural practices as it allows for carbon storage, prevention of deforestation, biodiversity conservation, cleaner water and erosion control. Also, it reduces vulnerability by enabling agricultural

lands to withstand events such as floods, drought and climate change and it restores degraded lands. Additionally, sustainable commercial forestry relieves pressure on natural forests, and it can be combined with agricultural systems (agroforestry) and/or cattle farming.

- 2.24 *Ecotourism.* Tourism is one of the main economic drivers for many countries in the Latin America and Caribbean region, accounting for approximately 10% of overall GDP. The Ecotourism industry has seen massive growth since the early 1990s, growing 20%-34% per year, a higher rate than the tourism industry as a whole. Ecotourism could grow to 25% of the global travel market within six years and account for US\$ 470 billion per year in revenue. The sector also offers a source of financing and local employment to villagers, providing economic alternatives and it supports use of local supplies and services. Ecotourism activities increases environmental and cultural awareness and it instills effective economic incentives for conserving and enhancing bio-cultural diversity.
- 2.25 **Incorporation of Lessons Learned.** Some of the lessons learned by the MIF and EcoEnterprises Fund and other co-investors are: (i) importance of the alignment of interests and expectations with the other co-investors; (ii) effectiveness of fund management teams with extensive networks during fundraising, building a pipeline and divesting from them; (iii) focus of fund management teams in a strategy they master; (iv) diversification sector approach is more workable in most LAC markets; (v) tranching of investments in companies to clear milestones; and (vi) MIF's involvement in corporate governance and LP relations is an asset to the industry, especially in funds with new investors in the region. EcoEnterprises Fund published, *Portfolio for the Planet: Lessons from 10 Years of Impact Investing* (2012/EarthscanRoutledge) to share such lessons with industry players, which lessons it intends to follow in the Fund for optimizing performance.
- 2.26 Recommendations from the first independent evaluation of EcoEnterprises Fund II, dated September 2016 that are going to be incorporated in Biodiversity Fund are: (i) systematize the "knowledge management" to make it more accessible and usable by all team members; (ii) continue to support the portfolio with value-added services and the Fund's engaged approach; this is particularly important for growth stage companies in order to reach profitability and as the portfolio matures to mitigate against any downside risk and, (iii) utilize social impact calculation tools in the presentation of environmental and social metrics.
- 2.27 **MIF additionality.** As one of the region's most recognized institution with experience supporting the Seed and VC industry, MIF will provide both financial and non-financial additionality to the Project. Although the VC and seed capital industry in Latin America has evolved during the tenure of EcoEnterprises Fund's first and second funds, traditional investors and local financiers are still slow to move into this investment niche despite its potential. As a laboratory of innovation, the MIF will continue to take a leadership role

to incentivize longer-term investments through Biodiversity Fund by providing equity investment to an asset class that is of limited supply in the target countries. MIF will be instrumental partner to improve the credibility of the Fund thereby helping to bring other investors during the initial and subsequent capital closings. MIF's ability to tap into additional sources of funding for climate adaptation and agriculture (e.g. GEF, CIF and other bilateral donors) is an example of this valuable leverage. Lastly, MIF helps ensure that the Fund is structured and governed according to international best practices and terms, which helps raise additional capital, particularly from institutional investors and contributes to the mainstreaming of the investment approach. Through MIF participation in the Fund's Advisory Committee and Investment Committee (as an observer), MIF will promote strong corporate governance and the adoption of environmental and social standards at both the Fund and portfolio level. This strengthens the Fund's impact and returns while also serving as a model to other funds.

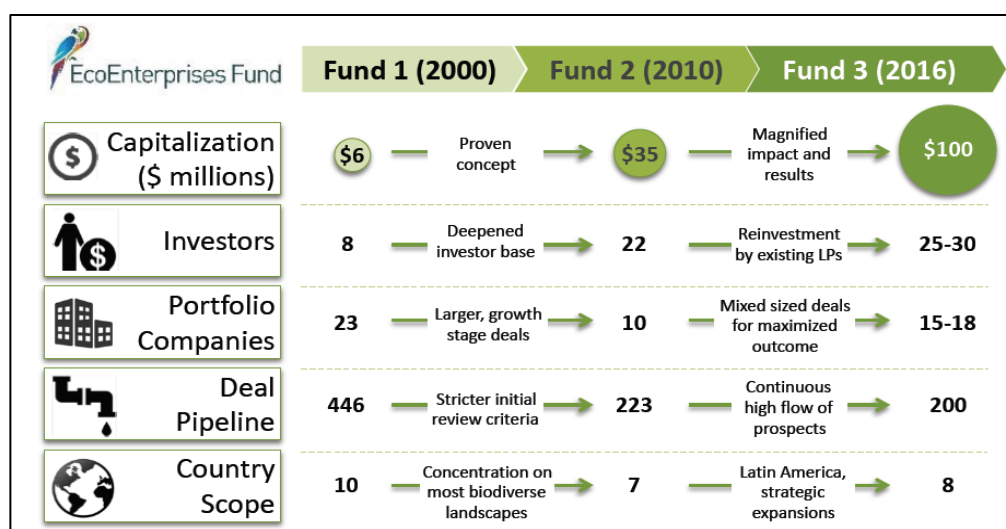
III. THE FUND

A. Objectives and Description

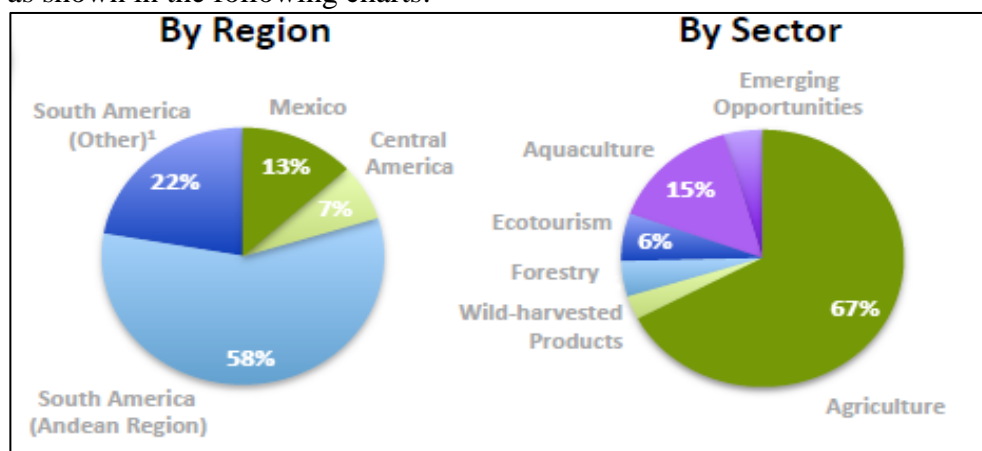
- 3.01 **Objective.** Through this project, the MIF intends to promote the Nagoya Protocol, a key element to the United Nations Convention on Biological Diversity through EcoEnterprises Biodiversity Fund, an impact investing pioneer in the region. The intended result of the project is to provide growth financing to up to 18 sustainable and biodiversity-focused companies by helping them to grow, consolidate their business, and scale their operations and impact results. The businesses will be in countries in the region that have identified Access and Benefit Sharing (ABS) of genetic resources related to biodiversity as a national priority.
- 3.02 **Project Description.** The Fund will provide growth investment capital to up to 18 innovative biodiversity-focused businesses which create long-term livelihoods for local communities and boost resilience in rural value chains, while mitigating climate risks, preserving vulnerable ecosystems and encouraging the sustainable use and the conservation of natural resources.
- 3.03 The Fund will work with UEBT through technical advisory help to showcase, shepherd and invest in SMEs sourcing from nature-based products and interested in aligning their businesses models with the international legally binding Nagoya Protocol. UEBT will assist the Fund with selection criteria for eligible SMEs, screening the SMEs that fit the GEF objectives (i.e. SMEs working in R&D and along value chains) and recommend them to the Fund for further evaluation and financial due diligence.
- 3.04 **Investment Strategy and Approach.** The Fund will invest in small- to medium-sized companies in Meso-America, Northern Andes, and the Amazon Basin, with established revenue streams from US\$1 to US\$ 10mm. The target sectors should be critical sustainable natural resource assets such as: sustainable agriculture (including apiculture, aquaculture) and use of water,

agroforestry and wild-harvested products, sustainable forestry, ecotourism, and emerging opportunities such as those that monetize environmental benefits and/or utilize technology for impact, and/or capitalize on emerging demand for sustainable products. The Fund will implement rigorous risk assessment and management, prudent diversification, and strong growth and impact objectives to generate attractive financial returns for investors, consistent with the current investment approach.

- 3.05 Considering the nature of the deals and the focus of the fund, EcoEnterprises Biodiversity Fund will apply an specific environmental, social, and governance (ESG) approach in every due diligence, in order to adapt deal structure to the Fund and investor goals. Beyond financial agreements, every deal agreement will include environmental and social commitments, based on Ethical, sustainable and Biotrade principles.
- 3.06 The Fund may provide mezzanine financing with upside potential (i.e. through convertibility, warrants, royalties, etc.); secured debt when appropriate, and equity for more established growth-stage companies, and/or a mixture of these instruments depending on the need of the investee and its risk profile, and potential return.
- 3.07 The initial target tickets of investment are US\$ 2-6mm over the life of the Fund with follow-on investment for successful deals. The investments tranches will be based on performance milestones. The Fund limits to downside risk controls as to limits to changes in capital structure, debt caps, financial parameters, and Board of Directors membership/observer rights. Also investments will include impact covenants and require a detailed social and environmental impact assessment via the Fund's metrics tool.
- 3.08 The Fund will limit its financial exposure in any one investee enterprise to 12% of its committed capital (including follow-on investments) and will not invest more than 15% of committed capital to one of more companies in the same affiliated group. The Fund will not invest more than 30% of its committed capital in any company with the majority of their operations in any particular country.
- 3.09 **Leveraging a proven approach.** EcoEnterprises Biodiversity Fund builds on a well-established legacy and respected platform for success: (i) leader in a distinctive impact niche with 20 years' experience, in region presence, and an unparalleled track record in the sector; (ii) demonstrated proposition with solid returns concurrent with tangible impact metrics; (iii) clear fund management guidelines with disciplined portfolio diversification and exit strategies; (iv) best-in-class impact measurement system; and (v) extensive resource network enabling superior performance in investment process from sourcing, due diligence, legal documentation, monitoring to exits.

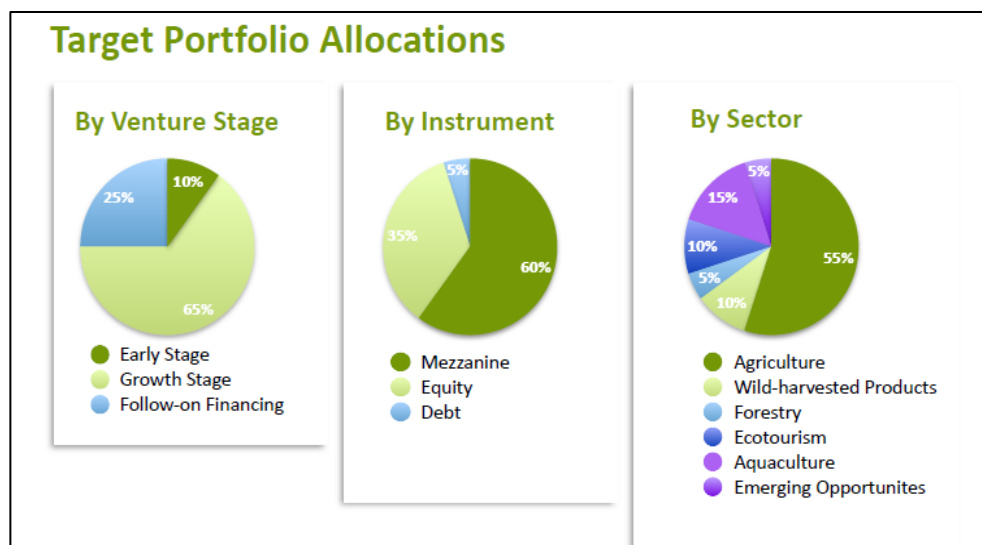


- 3.10 **Market opportunity and indicative pipeline.** The Fund Manager will ensure a steady deal pipeline through: (i) robust list of investment-ready prospects, including follow-on opportunities from Funds I and II; (ii) deep network of partners, including UEBT, advisors, co-financiers and experts to source additional deals and provide portfolio support, and; (iii) significant industry knowledge and Latin America presence that allows it to identify the most compelling deals. At the moment, there are 67 deal prospects, representing up to US\$113mm in initial investments, and distributed in 8 countries and sectors as shown in the following charts:



¹ Includes Argentina, Brazil, Chile, Guyana and prospects across multiple countries

- 3.11 The Fund will diversify the portfolio of companies to avoid industry or sector concentration:



3.12 These are all industries in which EcoEnterprises Fund has invested in the past and understands very well. The Fund will strive to diversify the portfolio of companies to avoid industry or sector concentration. An indicative pipeline follows:

Location / Type		Description
Peru / Sustainable Agroforestry	Agriculture,	This project is a company dedicated to the processing and commercialization of organic products from the Peruvian Amazon, such as Amazonian oils for consumption and cosmetics, wild-harvested nuts, dehydrated exotic fruit mixes and chocolate. The company cooperates closely with local peasant and indigenous communities and worker cooperatives, contributing to the development of the country's rural north by strengthening equitable value chains based on Peru's biodiversity, and generating direct employment and market access for over 700 local smallholders and nut gatherers. Since its inception, the company has put over 200,000 ha of forest under certified organic management.
Colombia / Sustainable Agroforestry	Agriculture,	This project intends to finance a first-mover in the large-scale production, processing, and commercialization of a local Amazonian "super-nut" that is used for extracting precious oils for applications in skin and hair care products, as well as for food supplements and snacks. The company is generating employment and economic development within remote, post-conflict zones of rural Colombia offering peasant and indigenous communities sustainable income opportunities through fair-trade pricing and wages. Reforestation efforts and the commercialization of the nuts create an important opportunity for the substitution of illegal crops in the region.
Colombia/ Sustainable Ingredients	Agriculture,	This project involves a highly innovative Colombia-based company that produces natural colorants for the food and personal care industries, enhancing the sustainable use of Colombia's biodiversity by increasing the added value of its natural resources. The company's materials and ingredients, most of which come from Colombian herbs and fruits, are sourced through a collaborative supply network with indigenous and rural communities. The company supports and fosters entrepreneurship, effectively combating poverty in some of the most vulnerable parts of Colombia and promotes the sustainable use of

	natural resources.
Ecuador/ Sustainable Agroforestry	Agriculture, This project is the first company to process and sell tea and energy drinks made from the leaves of the guayusa tree, a holly species local to the Amazon. The company is dedicated to building and improving livelihoods for indigenous farmers, while respecting and protecting cultural traditions. The company works in close partnership with the local Kichwa peoples to implement natural resource management policies and participatory wildlife monitoring. All tea is grown in biodiverse agroforestry plots, interspersed with other cash crops, subsistence crops and native rainforest species. These forest gardens allow for the maintenance of rainforest ecosystems, providing buffer zones and biological corridors around and between less-disturbed areas and plants, animals, and water sources important for the preservation of the Amazon.
Ecuador, Colombia, Brazil, Chile, Mexico/ Sustainable Agriculture	This project is a pioneer purveyor of healthy, value-added products from the Andes' abundant fruit supply. The company offers high-quality dehydrated tropical fruits, such as organic and conventional goldenberries, bananas, mangos, and papayas, a popular branded retail line as well as private-label snacks, teas and juices. Since its inception the company has followed a fast paced, expansion focused strategy that has secured its first-mover position in key markets across Latin America, Europe and the U.S. The company is a best-in-class example of sustainable business practices, reflected in its push for organic, and its efforts to enable rural families to generate income and improve their livelihoods by becoming long-term suppliers.
Nicaragua/ Ecotourism	This project is a pioneer in the ecotourism industry in Nicaragua and a quality purveyor of a Central American jungle hideaway experience. Its 1,782 hectares, half of which has been established as a nature reserve, is one of the last large sanctuaries, critical to the conservation of regional wildlife habitat along Central America's Pacific coast. The company offers visitors the opportunity to immerse themselves in a pristine nature from the comfort of their sustainably built bungalows nestled into the jungle or while with experienced guides and naturalists discovering local flora and fauna. The company actively defends its abundant but vulnerable ecosystems through reforestation efforts, environmental awareness and education programs in partnership with neighbouring communities.
Peru/ Ecotourism	The project is an ecotourism project that offers low-impact lodging in the Tambopata-Candamo Reserve Zone in the Peruvian Amazon, which is part of an important biological corridor that is a conservation priority because of the presence of endangered giant river otter and macaw nesting habitat. Tourism has increasingly become an important economic livelihood for the local people, mitigating the threats from illegal logging, hunting, and slash-and-burn agriculture. The company has a unique relationship with the local community of the Infierno, which owns one lodge that the company operates. The company's partnership with has generated millions in revenue for community members and supported health, school, and training programs.

B. Investors

- 3.13 The Fund's target capitalization is US\$ 80mm, with an initial closing of US\$ 40mm.

Expected Investors ¹¹	Amount (US\$)
MIF	5,000,000
GEF	10,000,000
Hivos-Triodos Fonds	3,000,000
European Investment Bank	20,000,000
FMO	6,000,000
Common Fund for Commodities	1,000,000
Other private investors (including current Fund II foundations, Impact Assets, family offices, etc.)	7,000,000
The Nature Conservancy	2,000,000
Norfund, Proparco and/or Obviam	20,000,000
Dutch Family Office	6,000,000
<i>Total: Expected Commitments</i>	<i>80,000,000</i>

- 3.14 **Commitment by EcoEnterprises Biodiversity Fund.** Up to US\$170,000 for activities related to the support of SMEs following the principles of the Nagoya protocol. The entire component will have the same duration as the Fund.

COMMITMENT BY ECOENTERPRISES

Category	Amount (US\$)
Nature based market analysis with selected SMEs	75,000,
Education and mainstreaming of marketing initiatives	70,000
TA on social and environmental aspects for SMEs ¹²	25,000
TOTAL	170,000

C. Management Company

- 3.15 The Fund will be managed by EcoEnterprises Capital Management. The Management Company will be responsible for raising the capital for the Fund. The management agreement will guide the Management Company's obligations to the Fund. The Management Company will be responsible for the Fund's day-to-day management including: (i) promoting the Fund to potential investees; (ii) developing investment procedures based on agreed guidelines (iii) providing investment identification, analysis and recommendations for the Investment Committee; (iv) performing due diligence on each potential

¹¹ An "expected investor" is an investor with whom the fund managers have made contact, who has expressed an interest in investing in the Fund, or is currently seeking approval of the investment from its own internal committees (similar to the MIF project approval process).

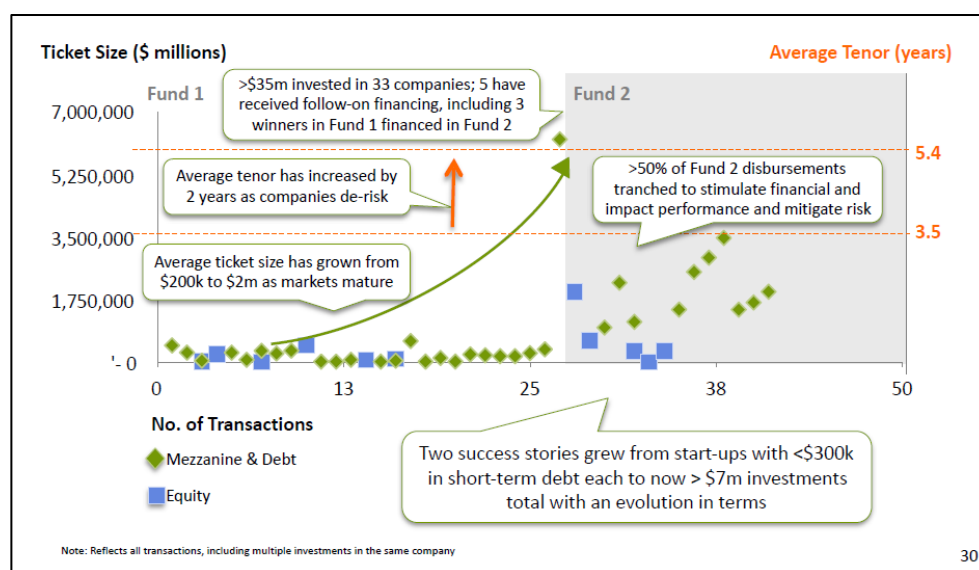
¹² Technical assistance consultancies to at least 10 SMEs on social and environmental, monitoring, special business, marketing or operational support and/or analysis and feasibility of raw material supply chains and enhancements

investee company; (v) negotiating and closing investments by the Fund; (vi) monitoring financial and technical aspects of the Fund; (vii) monitoring and reporting on Fund investments; and (viii) engaging in the design and implementation of effective exit strategies for each Fund investment.

- 3.16 **EcoEnterprises Fund track record.** MIF and GEF had a positive history with EcoEnterprises Fund, MIF having first made US\$2.6mm investment in the first fund, Fondo EcoEmpresas, S.A. and a US\$1.75mm grant for technical assistance support. Fund I launched in 2000 under the umbrella of The Nature Conservancy, an international non-profit organization. It was a hybrid “proof of concept” fund with grant-based technical assistance resources combined with investment capital. Pioneering a new approach to investing in community-based SMEs, Fund I deployed USD\$6.4 million, investing in 23 first movers in the infant organic agriculture, ecotourism, agro-forestry and sustainable aquaculture sectors to illustrate its investment proposition and showcase a range of sustainable, biodiversity-based SME. Portfolio companies introduced a wide variety of innovative products to the market: from organic shrimp to organic spices, from FSC-certified garden furniture to pesticide-free biodynamic flowers and smoothies made from acai sustainably harvested by a local community along the Brazilian Amazon. MIF and GEF support (which came through the International Finance Corp.) were instrumental to the results and performance of EcoEnterprises Fund I. MIF invested US\$2.6mm in Fund I and recovered US\$1.45mm.
- 3.17 All investments from Fund I were exited, the last ones in 2010, while EcoEnterprises Fund II was raised. At that time 79% of companies Fund I had invested in were still in operation. Presently, 16 years later, 70% still operate, with a few others which emerged in similar business pursuits. It is important to note that 3 of those Fund I deals, including Rainforest Expeditions, an ecotourism company working with local communities to preserve the scarlet macaw habitat and Sambazon which has bought sustainable wild-harvested acai in the Brazilian Amazon from over 10,000 community-based producers over the past 15 years, became Fund II portfolio companies and may transition to the Biodiversity Fund as well, demonstrating results at scale.
- 3.18 Even more importantly, Fund I demonstrated that by investing for impact it could not only help resolve pressing environmental and social issues but could do so while generating market-based returns for investors. This performance appealed to investors and entrepreneurs alike interested in replicating efforts. Fund I invested through the internet bust, September 11th, and then the global economic crisis during the last 2 years of exiting investments. Most conventional investment funds suffered during this "vintage year". Fund I broke even on the investment portfolio. When looking at what was achieved in Fund I versus the negative returns seen by most investment and venture capital funds in that period, Fund I stakeholders were pleased with the results, and consequently, formed the anchor investors for Fund II.

- 3.19 A second investment from the MIF of US\$3mm and from the GEF of US\$ 5mm was made in the follow-up fund, EcoEnterprises Fund II, EcoEnterprises Fund II achieved an overall capitalization of \$35 million, oversubscribed and seven times larger than the first fund. Fund II was fully deployed earlier than expected and is in the last year of the investment period. To date, there has been one repaid facility and already close to US\$4 million distributed back to LPs. Per the 2015 financial audit, all positions are presented at full book value. Based on deal IRRs between 10% and 22% across 10 portfolio companies, *Fund II is expected to surpass the hurdle rate with a minimum of 7.2% net return to LPs¹³*. This conservative case does not include any of the quasi-equity upsides that have been negotiated and have the potential to bring Fund II's net return to as high as 9% IRR. Downside risk is mitigated through collateral, company guarantees, Board participation, legal agreement provisions and long-standing company relationships.
- 3.20 EcoEnterprises Fund II's investments are on track to significantly surpass the accumulated metrics of the first fund. EcoEnterprises Fund II focuses on leveraging and scaling impacts. The current portfolio companies employ approximately 2,800 (75% of which are female), work with approximately 500 communities, have combined annual sales revenues that are over US\$ 170mm and rising rapidly, and conserve over 5 mm acres of land.
- 3.21 In summary as of today, EcoEnterprises Funds I and II have achieved the following:
- i. Tangible and positive impacts: 4,400 jobs generated; 20,700 suppliers supported, 150,000 local people impacted and more than 7 million acres sustainable managed or directly protected.
 - ii. US\$42mm deployed through Fund I and II in 33 companies that have subsequently raised US\$265mm in additional financing from investors and financial institutions to fuel growth.
 - iii. A transactional history covering 33 SMEs in 11 countries in Latin America.

¹³ As of June 2016 MIF has disbursed US\$2.4mm to Fund II. Current Net Asset Value calculations of this investment ascend to US\$2.18mm



- iv. Number of Limited Partners rising from 8 in the first fund to 22 in the second fund including European Investment Bank, FMO, Hivos-Triodos Bank, The Nature Conservancy, OikoCredit, Common Fund for Commodities as well as family offices, foundations and private investors in the U.S. and Europe all of whom are active participants in furthering the value of the portfolio as encouraged by EcoEnterprises Capital Management, LLC.
 - v. Compliance with major global standards in impact investments (GIIRS rated, proprietary impact metrics system, ANDE, IPEV, ILPA, among others). History of clean audit opinions.
 - vi. EcoEnterprises Fund is a women-owned and -managed fund, the first such fund in Latin America. Thus far, the Fund has invested in four women-owned businesses. At the SME level, the Fund has engaged its portfolio companies on the hiring of women at all levels of company operations and management.
- 3.22 The Fund has assembled an experienced professional investment team with an exemplary track record comprised of:
- 3.23 *Tammy Newmark*, CEO and Managing Partner. A leader in impact investing, has over thirty years of experience in the field. Newmark launched EcoEnterprises Partners II, LP in 2012 under EcoEnterprises Capital Management, LLC in which she is a partner. She served as President of Fondo EcoEmpresas, S.A., EcoEnterprises Fund's first fund under management, for The Nature Conservancy from 1998 to 2010. Newmark directed Technoserve, Inc.'s environmental business advisory services in Latin America and Africa. Prior to that, she was a founding officer of Environmental Enterprises Assistance Fund, the first venture fund that specialized in renewable energy, clean technology, and green investments in emerging markets. She established

investment groups: Yayasan Bina Usaha Lingkungan and Preferred Energy Investments in Indonesia and the Philippines, respectively. She has also worked for the International Finance Corporation and JPMorgan Chase. Newmark is co-author of *Portfolio for the Planet: Lessons from 10 years of impact investing* (Earthscan/Routledge Press, 2011). Newmark has an MBA from the Wharton School of the University of Pennsylvania.

- 3.24 *Michele Pena*, COO and Managing Partner. Pena has been part of the EcoEnterprises Fund's senior team since 2001, managing all operational, business development and monitoring and evaluation functions. Pena launched EcoEnterprises Partners II, LP in 2012 under EcoEnterprises Capital Management, LLC in which she is a partner. Pena brought organizational and marketing expertise to EcoEnterprises Fund from her position as Program Director at the Climate Institute, a nonprofit organization focused on global climate change issues. Pena is co-author of *Portfolio for the Planet: Lessons from 10 years of impact investing* (Earthscan/Routledge Press, 2011). She has an MA from American University in Washington, D.C.
- 3.25 *Oksana Aguilar*, Financial Controller. With over fifteen years' experience, Aguilar has served in various financial management functions. For five years, she served as Investment Monitoring Officer for Fondo EcoEmpresas, S.A. EcoEnterprises Fund's first fund under management and rejoined the team in 2012 to serve as Financial Controller for EcoEnterprises Partners II, LP. Prior to this present position, she was Finance and Administration Director for World Wildlife Fund's Central America Program Office in Costa Rica. She also held the position of Finance Specialist at The Nature Conservancy and worked in the controller's office in IUCN's Mesoamerican Office. Aguilar holds an MBA with emphasis in banking and finance from the University of Costa Rica.
- 3.26 *John McKenna*, Managing Director. McKenna brings nineteen years' experience in both private equity and the technology industry, the majority focused on the emerging markets of Latin America, Africa and Asia. He has worked extensively advising corporate executives and Boards of Directors on strategic issues. His functional expertise includes new business development, mergers and acquisitions, corporate restructurings and turn-around management. Most recently John worked as an executive in the Private Equity group of Fidelity Investments, covering a wide-range of industries. He has an MBA from the University of South Carolina.
- 3.27 *Nathalie Prado*, Managing Director. Prado has been on EcoEnterprises Fund's investment team for 10 years. She served as a monitoring officer for Fondo EcoEmpresas, S.A. EcoEnterprises Fund's first fund under management carrying out post-investment field visits, gathering portfolio impact metrics and managing several deal workouts and exits. She rejoined in her present capacity for EcoEnterprises Partners II, LP after several years at Root Capital where she was a loan officer for Central America, leading investment activities in Nicaragua, Dominican Republic and Haiti. She holds an MBA in

Sustainable Business from Universidad para la Cooperacion International in Costa Rica.

- 3.28 *Julia Santander*, Managing Director. Santander had several years of experience with the Boston Consulting Group in Europe, US and Asia prior to joining the Fund. She focused on mergers and acquisitions, supporting clients during due diligence to post-merger integration. She also worked on sustainability and social impact assignments with various European NGOs and foundations. She holds an MA in International relations, economics and business administration from the University of Passau in Germany with a specialization on Latin America economies.
- 3.29 **Integrity review.** The MIF conducted an integrity review of the Management Company, current investors, potential investors identified to date, and other individuals related to the Fund in accordance with IDB guidelines (document CC-6093), and did not detect any concerns. (in progress).

D. Fee Structure and Operating Expenses

- 3.30 The Institutional Limited Partners Association's (ILPA) Private Equity Principles¹⁴ issued in January 2011 state that: "alignment of interest between investors and fund managers is best achieved when the fund manager's wealth creation is primarily derived from the carried interest and returns generated as a percentage of the fund's profits after the investors requirements are met." The investors' requirements are met once they have received the entirety of their capital committed and disbursed, plus the hurdle rate. After this, the Management Company is entitled to begin to receive a percentage of the profits of the fund.
- 3.31 The MIF project team considers that the Fund's management fee has been designed following this industry best practice, allowing the investment manager to have enough income during the life of the Fund to manage its activities with the appropriate staff and resources, but not obtaining any profits. In this way, the fund manager stays incentivized throughout the life of the Fund to maximize returns to the investors, which in turn will maximize its own returns.
- 3.32 The management fee will be up to 2.5% per annum over committed capital during the investment period. After the investment period the fee will be up to 2.5% per annum over the amount of invested capital remaining in the portfolio (net exits and write-offs), consistent with market standards.
- 3.33 The distribution cascade for the return of capital and capital gains to be realized by the Fund will be as follows:

¹⁴ <https://ilpa.org/>

- a) 100% to each investor, *pro rata* based on outstanding capital contributions, until each investor has received an amount equal to all its capital contributions;
 - b) 100% to each investor, *pro rata* based on the amount up to the hurdle rate payable to each investor (7%); and
 - c) 80% to the investors, *pro rata*, and 20% to the Management Company.
- 3.34 The manager will share a portion of the Carried Interest of 20% to the Manager's investment staff and to the independent Investment Committee members.
- 3.35 **Projected return.** The Management Company expects the Fund to generate a 12% net IRR, assuming a fund capitalization of US\$80mm. (See Annex II). Performing a sensitivity analysis, the MIF and the Fund Management team considered a more conservative scenario of the forecasts in which there are 10% of non-performing investments. Under this scenario, the projected IRR was 10.47%, which is still acceptable to the MIF team, given the level of risk of an early stage equity fund.
- 3.36 **Pre-operational and organizational expenses.** The Management Company will be reimbursed for pre-operational expenses (including legal fees for structuring the Fund), once approved by the investors, for an amount up to US\$300,000, equal to 0.375% of total capital commitments. The Fund shall cover operational expenses reasonably incurred in the performance of services (filing fees, legal and auditing expenses, litigation costs, etc.), for an amount not exceeding 1.5% of total capital commitments over the life of the Fund.

E. Terms of the Investment

- 3.37 **MIF Commitment.** US\$5mm.
- 3.38 **GEF Commitment.** US\$10mm.
- 3.39 **Vehicle.** The Fund's legal structure will mirror Fund II, as a Limited Partnership organized in the UK or another jurisdiction in Europe acceptable to all investors, and domiciled in Costa Rica. Venture capital and private equity funds are frequently formed as Limited Partnerships, because they provide limited liability for investors while taxation would not apply at the entity level but to each partner on its share. As a partnership as a pass-through entity, the Fund's profits will be passed through to the Limited Partners and taxed only at the investor level. A jurisdiction in Europe has been requested by European investors to ensure compliance with their regional regulations, which are more substantial than in many other jurisdictions.
- 3.40 **Size of the Fund.** The Fund's target capitalization is US\$80mm, but the Fund can start operating after an Initial Closing at a US\$40mm capitalization level. The Fund will be able to continue fundraising for up to 18 months after the Initial Closing.

- 3.41 **Maximum life of the Fund.** The Fund will have a ten-year life from the Initial Closing. The term of the Fund may be extended by a majority vote of the Fund ownership for up to two (2) additional one-year periods. Since this is a closed-end fund, all investors, including the MIF, will exit the Fund at the same time.
- 3.42 **Investment period.** The Fund will have a five-year investment period from the Initial Closing, followed by a five-year investment management and divestment period. The investment period may be extended for a maximum period of one year with the unanimous consent of the LP Advisory Committee.
- 3.43 **Removal of Management Company.** The Management Company may be removed as Fund Manager by a majority vote of LP Fund ownership for “cause” if the Management Company: (a) voluntarily commences any court proceeding for bankruptcy or insolvency, or acknowledges its insolvency in any bankruptcy or insolvency proceeding, or is found by any court to be insolvent or bankrupt; (b) is found in any court, tribunal or arbitration proceeding to have committed any act constituting fraud, willful misconduct or gross negligence; (c) is barred (or any principal or affiliate is barred) from engaging in any securities business by any regulatory authority, court or tribunal; (d) has committed a material breach of the Management Agreement and has not cured such breach within a reasonable time. The Management Company may be removed by extraordinary resolution at any time and for any reason (with 75% of LP Fund ownership). A new Management Company would then be appointed by an extraordinary resolution.
- 3.44 **Reporting to investors.** The Management Company will provide on a quarterly basis, unaudited financial statements and descriptive information for each of the Fund’s investees; on an annual basis, audited financial statements, impact report, valuation reports, and tax information necessary for the completion of tax returns; and any other report or information that investors may request. The information on portfolio companies will also include their performance with regards to impact (social and environmental) indicators.
- 3.45 **Key Person provisions and dedication of personnel.** The Management Company will not form another fund until the earlier of: (i) the end of the investment period; or (ii) the date on which at least 70% of the Fund’s aggregate commitments have been invested or reserved for future committed investments, fees or expenses. There will be a Key Person Clause for Tammy Newmark and Michele Pena. Both of them will dedicate a minimum of 75% of their time to exclusive activities of the Fund, and 25% of their time to the divestment of EcoEnterprises Fund II. In the event any of the Fund’s key persons ceases his duties in the Fund for any reason, the Management Company will be prohibited from making any further investments until such a time that new replacement key executives are appointed, with the exception of investments that have been approved by the Investment Committee before the key person clause takes effect.

- 3.46 **Disbursements.** Disbursements will be made pro-rata according to each partner's share of the Fund's total capital commitments. Capital commitments will be called over time in tranches to cover the Fund's expenses, new investments, etc.
- 3.47 **Governance structure.** The Fund's governance structure includes: the LP Advisory Committee (LPAC), an Investment Committee (IC) and an Impact Committee (IMC).
- 3.48 **LP Advisory Committee (LPAC):** The LP Advisory Committee shall consist of [add number] selected representatives of the Limited Partners, each representing at least 10% of commitments in the Fund. The LP Advisory Committee will advise the Management Company on issues such as sectors of interest and asset valuation. Members of the LP Advisory Committee will be entitled to reimbursement for out-of-pocket travel expenses incurred in relation to their attendance at LPAC meetings. LPs with more than 10% interests are entitled to a seat in the LPAC. The MIF representing MIF and GEF investment will have a seat on the LP Advisory Committee.
- 3.49 **Investment Committee (IC).** The IC will be composed of three persons with extensive track records as investors and operators of the similar Funds. From the Management Company, Tammy Newmark will be a member of the IC. Independent members would include Michael Murray and Martí Jimenez (background described below). These members of the IC have worked together for 15 years. The IC will meet regularly as needed. The IC should have frequent and ongoing engagement with management team, including site visits where appropriate.
- 3.50 *Michael Murray.* Michael Murray has 15 years of general business experience in software and telecommunications and 15 years as a venture capitalist, including founding New Millennium Venture Partners and subsequent funds. He has 10 years of public service with the City of Mount Shasta in Northern California, including serving as Mayor. He was also on the board of EcoEnterprises Fund for 10 years, visiting the fund management team in Costa Rica and traveling to several portfolio companies. Murray holds an Executive MBA from the Dartmouth Business School.
- 3.51 *Martí Jimenez.* Martí Jiménez is a principal of Novita Capital, a Costa Rica-based project management, consulting, and investment firm. He has led several startups, including Veragua Rainforest, a ecotourism adventure park financed under EcoEnterprises Fund I. Prior to founding Novita, he worked for Mesoamerica Investment on merger and acquisitions, where he covered diverse businesses and industries throughout Central America, including call centers, agro-industrial concerns, airlines, telecom, and building materials. He has also worked for hedge fund Ramius Capital Group and as a consultant for Bain & Company. Jiménez, a citizen of Costa Rica, has an industrial engineering degree from the Universidad de Costa Rica and has an MBA from Harvard University.

- 3.52 The IC is responsible for analyzing the investment proposals presented by the investment team, and making investment decisions. The IC also leads the Fund's divestment decisions, including partial and total write-offs, in accordance with the recommendation of the investment team. MIF will be an observer in the IC, with full rights to the same information as the voting members.
- 3.53 **Impact Committee (IMC).** The IMC will be composed of three members with deep experience in the Fund's geographies, sectors and impact objectives. The responsibilities of the IMC would include: (i) leverage expertise to complement investment review process; (ii) advise on trends and issues relevant to impact objectives, such as climate change, ecotourism and emerging sectors (e.g. biopesticides); and (iii) provide guidance on impact metrics. The IMC members will include experienced Latin America specialists with a base in Costa Rica: Frank Hicks, Roberto Lopez and Irene Suarez. The IMC will meet on an as-needed basis.
- 3.54 **Portfolio supervision.** The Fund seeks active Board participation in portfolio companies and carefully monitors the financial performance of the businesses, as well as their compliance with environmental, social, labor and safety standards. The Management Company will actively supervise the Fund's portfolio, and will help further the goals of growing the businesses by providing advisory support in the areas of strategy, financial management, marketing, technology, etc. The Fund will take appropriate actions in case portfolio companies are not performing as expected.
- 3.55 **Valuation of the portfolio.** The valuation of the Fund will be compliant with fair value measurement, according to IFRS.
- 3.56 **Social and Environmental Review.** Given the size and nature of investments to be made through the Fund, the Fund's environmental and social risks are expected to be minimal. The Management Company will manage the funds in accordance with the IDB/MIF's environmental and social guidelines as applicable to MIF Financial Intermediary Operations. The non-reimbursable component of this project will include a number of evaluations that will ensure that the Fund has a procedure in place to ensure review and management of potential risks and impacts, and that the participating SMEs comply with national environmental and social legislation and with the IDB List of Excluded Activities. ESR reviewed this project (pending date), 2016 and classified it as B13.

IV. PROJECT IMPACT, KNOWLEDGE AND COMMUNICATION STRATEGY

- 4.01 **Expected Results.** Through the Fund we expect to achieve results related to (i) improved productivity; (ii) generation of new jobs; (iii) and furthering the objectives of the Nagoya Protocol. Some of the outputs expected from the

implementation of Fund may include: (i) up to 18 SMEs to receive capital from the Fund to scale-up impact and enhance financial performance; (ii) US \$ 68.3m of capital committed by other investors to leverage MIF resources mobilized into the fund, (iii) up to five companies receive support through UEBT to further understand, educate and mainstream marketing initiatives pertaining to Nagoya Protocol; (iv) number of net jobs created annually by firms presented in the logical framework; (v) number of Fund's portfolio companies that exit successfully and (vi) acres sustainably managed or directly protected, as well as others presented in the logical framework.

- 4.02 At a broader level, no other investment fund currently exists which specifically offers financing for companies working under the Nagoya Protocol. If successful, this Fund can serve as a model to establish similar mechanisms and financing instruments in this and other regions. Importantly, EcoEnterprises Fund has demonstrated through the building of sound investment portfolios composed of sustainable SMEs that such track records attracts investors and entrepreneurs. By investing in biodiversity-focused business, this Fund will pave the way for future growth in the sector, scaling and strengthening companies with knowledge and experience about the Nagoya Protocol.
- 4.03 The economic and social impact of portfolio companies is expected to be high. From the standpoint of job creation, typical early stage and SMEs in these industries tend to generate employment while promoting indirect jobs through suppliers and other related businesses. The Fund, through its impact investment lens, is committed to invest in companies that have an innovation-centric competitive advantage, high-growth potential, good governance practices, a well-defined plan to expand into the region's larger markets, and that engage in generating a positive social and economic impact.
- 4.04 **Evaluation and Communication Strategy.** To assess the above expected results, the Fund will be subject to two independent evaluations conducted at years four and eight, which will assess both financial performance and developmental impact. The evaluations will use standard financial assessment models and process evaluation methodologies. When appropriate, evaluators will attempt to determine plausible attribution between project activities and observed outcomes using comparable companies or benchmarks from secondary sources. Fund evaluations should address, among others, the following aspects: (i) Fund's portfolio quality, valuation, expected returns, governance, demonstration effect and compliance with investment and environmental policies; (ii) effectiveness of portfolio management; (iii) effectiveness of the Management Company relations with LPs and Fund investees; (iv) assessment of the economic impact of venture capital financing at the firm level (business performance of portfolio companies) and at the Fund's level; and (v) assessment of the developmental impact achieved by portfolio companies and at the Fund level, using selected social and environmental indicators. Evaluations are always shared among investors to promote knowledge and incorporation of lessons learned into future investments.

- 4.05 Learning will be captured and measured through: (i) yearly field visits and ongoing supervision; (ii) the MIF's active participation in the LP Advisory and Investment Committees; and (iii) collection of information and data through AFSRs as well as through the two independent evaluations of the Fund mentioned above.
- 4.06 **Scale-up strategy:** the Fund is known by other financiers to have one of the most robust pipeline of potential investments in the region. Other funds have often indicated that they tend to follow the Fund's movements and try to invest in the same companies, something that has often benefited both the Fund and the SME. During the ongoing Biodiversity Fund raise, the Fund has repeatedly received expressions of interest from potential co-financiers for future investments, a momentum that the Fund with support from the MIF will strategically leverage to help its portfolio companies scale returns and impacts and to channel additional third party investments in industry sectors that are most relevant under the provisions of the Nagoya protocol. By incentivizing large corporations to chime in on the Fund's efforts to promote sustainable equitable value chains, the Fund unleashes significant potential to scale up investments in relevant projects in the region.
- 4.07 The cooperation with UEBT provides further sustainability to the Project and its activities related to the Nagoya Protocol. As the Fund leverages UEBT's expertise in its investment screening and management it brings significant know-how to ABS companies, that will support their growth, further providing sustainable platforms for replication of ABS related practices. At the same time the Fund helps UEBT to broaden its outreach to potential members and serves as a platform for UEBT to promote its trade standards to a significantly larger audience. The Fund has witnessed that financing is missing for these opportunities; Fund III is targeted to take advantage of this void and demonstrate the strength of these company propositions.
- 4.08 Given the relevance of the Biodiversity Fund for its innovative nature, EcoEnterprises Fund coordination with the MIF, GEF and other investors would be expected to disseminate the Fund's operational experience and relevant lessons through industry events and IDB or MIF sponsored events and other local and international events reaching a wide range of audiences. The main audiences that would be interested in the results of the project include: (i) local and international impact investors who may be interested in investing in the relevant sectors; (ii) conservation and civic NGOs; and (iii) local governments, including regulators and lawmakers who can make local business environments more conducive to seed and VC investing. The Management Company will utilize the next edition of *Portfolio for the Planet* to be published in 2017 as the basis for learning.

V. RISKS AND CONSIDERATIONS

- 5.01 **Business and Portfolio Management.** The investment niche of SMEs carry certain capacity, technical, and implementation risks versus investing in larger companies. **Mitigants:** The Management Company has more than 20 years of extensive experience in providing capital to SMEs. As in previous funds, this Fund will diversify the portfolio based on size, sector, instrument, tenor, country and stage of development to create a solid and prudent portfolio. Active and on-going pipeline development will allow the Fund to pick-up the best prospects available at the time. Prudent deal structuring including disbursements tranches based on agreed upon benchmarks or milestones, follow-on financing only for portfolio winners, collateral requirements, exit mechanisms negotiated prior to investment are all approaches that the Management Company undertakes. Leveraging high quality network of local advisors, legal counsel and specialists in addition to relying on the LPs, IC and IMC will ensure the strength of all aspects of the Fund's activities. Lastly, hands-on role in partnering, providing technical support and monitoring investee company performance builds a working relationship for improving results.
- 5.02 **Management and Key Personnel.** The Biodiversity Fund is dependent upon the expertise of certain key employees, including Tammy E. Newmark, who is the principal officer of the Management Company. If the Investment Manager were to lose the services of Newmark, its ability to provide services could be adversely affected. **Mitigants:** There will be a Key Person retention clause in the Management Agreement. The clause will go into effect if at any time, Ms. Newmark and Ms Peña were leave the Fund or reduce their time dedicated to the Fund. The Fund will need to replace within six months Ms. Newmark and Ms Peña with a Fund Manager with similar expertise and network in the region, who will be approved by the Limited Partners. If LPs do not agree with the proposed replacement, the Fund may be dissolved. Newmark and Michele Pena, CEO and COO of EcoEnterprises Fund, respectively, are also majority owners in the Management Company, creating a strong personal commitment. A majority of the team members have worked together for more than 10 years. Most of the team is based in Costa Rica and Colombia.
- 5.03 **Fundraising.** The Fund may not reach the targeted capitalization and that may compromise the Fund's strategy. **Mitigants:** MIF learned from the first and second fund that smaller funds are not financially viable. For the Biodiversity Fund, MIF will require an initial capitalization of US\$ 40mm, which MIF considers sufficient for the Fund to successfully execute the strategy.
- 5.04 **Foreign Exchange, Tax, Country.** Financing provided by the Fund will be denominated in U.S. dollars. Some companies given size and market orientation may be exposed to local currencies, thereby exposed to currency fluctuation. **Mitigants:** While long-term hedging against such risk is not generally available for SMEs, the majority of the Fund's investments will generate current income and export in US Dollars, thereby providing faster reflows and a shorter period of exposure to currency and exchange risks than in traditional VC funds. Investments are structured with consideration of tax implications for LPs. By

working in the region – the Management Company has had a physical presence in Costa Rica for nearly 20 years and relying on extensive networks--EcoEnterprises Fund is able to stay abreast of political and economic changes and prepare for contingencies.

- 5.05 **Deal Flow.** The Fund may be unable to find sufficient pipeline that fit within the Fund's investment guidelines and strategy. **Mitigants:** On-going strategic deal generation with in-region presence (headquartered in Costa Rica with an additional office in Colombia) and extensive network built over 20 years gives the Fund a significant reservoir of strong opportunities and knowledge of players and SMEs in the region. The Fund's focus on SMEs that are unable to access financing from conventional sources due to the shallowness of local capital markets and newness/complexity of the industry sectors paves the way for pipeline.
- 5.06 **Illiquidity of Fund Investments.** The illiquidity of the Fund's investments may result in the Fund's ability to sell or otherwise dispose of some of its investments during the term of the Fund. **Mitigants:** The Management Company structures deals to exit before the end of the Fund's life; with most transactions as debt instruments provides greater control than equity investments. Exit strategies and opportunities are continuously evaluated as part of ongoing monitoring process. MIF experience has been that fund managers with extensive local and international networks have more ability to secure successful exits from portfolio companies.
- 5.07 **Environmental and Social Integrity.** By financing SMEs with the mandate of sustainable use and conservation of natural resources, there may be unintended adverse impacts on local communities and the environment. **Mitigants:** Rigorous environmental screening and evaluation process for every prospective investment is undertaken including the application of a tested and established impact metrics tool. Screening enables the team to identify potential issues in investees under consideration and monitor existing investments.

VI. EXCEPTIONS TO BANK POLICY

- 6.01 None.