

## SUMMARY OF THE PROJECT IN DESIGN \* (\*)

### Green Catalytic Innovation Fund: Digital Circular Economy for Net-Zero

PITCH ELIGIBILITY DATE		COUNTRY(IES)
02/22/2023		Argentina; Brazil; Chile; Colombia; Ecuador; México; Peru
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
LatImpacto		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
C (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
US 3,300,000	US 1,300,000	US 2,000,000
DESCRIPTION		

**The problem** Climate crisis: We are facing an environmental crisis: degradation of our atmosphere, soil, and biodiversity – which in turn are exacerbating food insecurity, poverty, and conflicts.

**GHG Protocol and Value Chains:** Six years after the Paris Agreement, stakeholders are demanding that business play a more active role in global efforts to tackle climate change. Companies are responding with public commitments to ongoing emissions reductions.

**Financing green Innovators:** Green innovators (e.g., startups in Greentech, B Corps) in Latin America need larger and quicker support to scale their solutions to face the environmental crisis and contribution to net-zero value chains. The contribution of the catalytic resources from the private sector (companies, corporate foundations, ESG funds, impact investment funds, among others) to innovative initiatives with a positive environmental impact are becoming increasingly relevant in recent years. However, these opportunities cannot be fully exploited as these players still face numerous challenges:

Atomized investments lead to low efficiency in the use of the resources granted.

Unsophisticated approaches to selecting and monitoring their investments. Limited selection mechanisms that do not fully exploit the predictive power of data driven algorithms for sorting and targeting investments. Inadequate evaluations frameworks that do not include theory-based and empirically-validated development results indicators and other inputs for effectiveness assessment based on formal causal inference.

Little collaboration and transfer of lessons learned and best practices among entities, thus repeating common mistakes and perpetuating ineffective approaches and practices. Lack of common metrics

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\*\*The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

and conceptual frameworks to assess the real impact of these actors' activities. Lack of coordination in influencing the public and private sectors in the region and the public. Lack of transparency on the successes and failures, which creates distrust from the public and potential investors.

These challenges show a sector with low efficiency, not learning-oriented, with difficulties in supporting disruptive solutions and in taking them to scale.

**The solution** The proposed project will bring, in alliance with the network of Venture Philanthropists of Latin America (Latimpacto), this catalytic approach to the region for the first time. It will establish a support mechanism for green innovators that will consist of three components: financing, community, and acceleration.

Component 1) Development of a financing mechanism (fund or similar) for models and solutions with positive environmental impact through a contingent recovery financing mechanism.

Component 2) Creation of tools, knowledge and community around this initiative that will drive more and better solutions. Particular focus on developing tools for a better selection process that allows a better allocation of resources following the findings in this CTI publication. An example of tool could be a customized platform for data collection, processing and reporting. It would contain modules for sorting and selection of potential investees at baseline and monitoring of performance of actual investees

Component 3) Incubation/acceleration of innovations with high positive environmental impact.

The financing mechanism will have three types of contributors:

1) Partners from Latimpacto's network with a regional or international outlook that can invest in initiatives throughout Latin America. This could be multinational companies, corporate foundations, wealthy individuals, or large international foundations focused on green, climate change and particularly on aspects related to help accelerate the decarbonization of value chains (Scope 3 GHG emissions) with a Digital Circular Economy (DCE) approach to Net-Zero value chains

2) Local actors, with a specific geographic focus

3) Large international green finance initiatives such as GEF or GCF, among others

In the initial stages, type 1 and type 2 donors would be sought, laying the groundwork for type 3 donors at a later stage. This mechanism would be unique because it would allow for intermediation and dialogue between private sector environmental impact initiatives and large funds. These initiatives cannot reach their full potential for collaboration with the private sector due to the high transaction costs involved. Such a mechanism would open the door to untapped resources for the region, more efficient collaboration, and greater impact.

This proposal would generate a) joint efforts with the region's private sector for environmental impact innovation, b) an intervention model that helps channel and allocate resources more effectively for impact and b) experimentation among actors in the sector. Latimpacto is the largest community of

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impact investors in the region, which in turn is interlinked with other sister networks in Europe and Asia. Latimpacto has already specific working groups with Gender-Sensitive investing.

**The beneficiaries** The fund expects to support more than 10 ventures. It is difficult to predict in advance the positive environmental impacts that the solutions will generate, but these would contribute to GHG emissions reduction (with a particular focus on innovation that accelerate value chain decarbonization/Scope 3 with a DCE approach), ecosystem regeneration, biodiversity preservation and water footprint, among others.

The organizations that would receive support from the mechanism would be primarily from Latin America, promoted by the private sector, with business models or technologies that require testing but show potential of scale, addressing common environmental problems in Latin America and the Caribbean.

**The partners** Latimpacto will be the implementing partner of the non-reimbursable technical cooperation and will execute the resources granted by IDB Lab according to its procedures and rules. It will act as a bridge between IDB Lab and the environmental impact-driven community. It will manage the community, the creation of tools and the incubation/acceleration, working with specialized allies and members within its network.

Latimpacto gathers more than 160 impact-driven investors that provide human, intellectual, and financial capital in Latin America to help them maximize their impact through innovative knowledge and orchestrates partnerships and collaborations that enable a more strategic deployment of capital. It has created a Climate Action and Conservation Working Community. Latimpacto brings together the main players in the private sector in countries such as Brazil, Mexico, Colombia, Argentina and Chile, including large corporate foundations, individual philanthropists and accelerators of projects with impact. Its connections with the other Venture Philanthropist networks in Europe and Asia open the door to additional contributions.

Latimpacto's network includes several impact incubators and accelerators. It is worth mentioning the accelerator network "Red Impacto", which includes organizations such as Agora, Fundes, Koga, Kunan, Grupo Impacta or Irrazonable, among others, which would support the

incubation/acceleration component.

**The IDB Lab contribution** IDB Lab foresees an initial contribution of US\$1 million to the financing mechanism through a contingent recovery technical cooperation/investment grant and a non-reimbursable technical cooperation grant of approximately US\$300,000.

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