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MULTILATERAL INVESTMENT FUND

**COLOMBIA, ECUADOR, AND PERU**

**INCUBATOR OF INDIGENOUS BIOECONOMY COMPANIES  
FOR THE AMAZON REGION**

**(RG-T4154)**

**DONORS MEMORANDUM**

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**PROJECT SUMMARY**  
**INCUBATOR OF INDIGENOUS BIOECONOMY COMPANIES FOR THE AMAZON REGION**  
**(RG-T4154)**

In 2021, some 1.9 million hectares were deforested in the Amazon, causing the irreparable loss of ecosystem goods and services of global importance and releasing an alarming amount of carbon emissions into the atmosphere. Several studies have shown that deforestation rates are lower in indigenous territories.

The bioeconomy has emerged as an ecosystem conservation and restoration strategy based on the economic use of standing forests. Indigenous enterprises are gaining visibility as agents of change that connect remote areas of the Amazon with sustainable markets. However, few initiatives to promote the indigenous economy are led by indigenous organizations.

The project objective is to raise the incomes of the indigenous peoples of Colombia, Ecuador, and Peru by promoting a participatory model for incubating indigenous biobusinesses. This participatory mechanism will involve four indigenous federations to build their technical capacity in relation to the indigenous economy.

Nonprofit Enterprise and Self-sustainability Team Inc. (NESsT) has experience incubating 29 indigenous enterprises in the Amazon basin. It is also working in collaboration with indigenous federations to promote the concept of bioeconomy in the region.

The project's innovation lies in its engagement of indigenous federations in a participatory mechanism for incubating 15 indigenous enterprises. The model's key innovative feature will be its indigenous economy committees that will engage the federations as members, thereby involving them in the incubator's governance.

The 15 selected indigenous enterprises will receive a financing and technical-assistance package to strengthen their business capabilities and enhance their social and environmental impact.

The project will include a strong gender component to boost the participation of indigenous women in decision-making. Fifty percent of the members of the indigenous economy committees will be women. In addition, the project will advise the 15 indigenous enterprises on gender issues to strengthen their internal diversity and inclusion policies.

NESsT will document the participatory governance model for replication in other initiatives that seek to give indigenous organizations more of a leading role in co-designing and managing bioeconomy programs, such as the Community Grants Program managed by the IDB with FP173 resources from the Green Climate Fund.

## **ABBREVIATIONS**

AIRR	Amazon Indigenous Rights and Resources Activity
IECs	Indigenous economy committees
COP26	2021 United Nations Climate Change Conference
NGO	Nongovernmental organization
NESsT	Nonprofit Enterprise and Self-sustainability Team Inc.
PMT	Performance Management Tool
SDG	Sustainable development goal
USAID	United States Agency for International Development

**EXECUTIVE SUMMARY**  
**INCUBATOR OF INDIGENOUS BIOECONOMY COMPANIES FOR THE AMAZON REGION**  
**(RG-T4154)**

<b>Country and geographic location:</b>	Peru: departments of San Martín, Ucayali, Junín, Madre de Dios, and Amazonas Colombia: departments of Caquetá and Putumayo Ecuador: department of Orellana		
<b>Executing agency:</b>	Nonprofit Enterprise and Self-sustainability Team Inc. (NESsT)		
<b>Focus areas:</b>	Climate-smart agriculture Environmental sustainability		
<b>Coordination with other donors/ Bank operations:</b>	The project has synergies and will coordinate with the Program to Promote Sustainable Financing in the Peruvian Amazon Region (operation PE-L1258) and with the Forest Investment Projects (operation PE-L1232, PE-G1003). The project team will also coordinate with the U.S. Agency for International Development and its Amazon Indigenous Rights and Resources Activity, which operates in the project countries.		
<b>Project beneficiaries:</b>	The beneficiaries will be: (i) four indigenous federations, whose management of indigenous economic programs will be strengthened; and (ii) 15 indigenous enterprises, which will be accelerated and positioned to receive impact investments. In total, more than 1,000 indigenous families will benefit from the project.		
<b>Financing:</b>	Nonreimbursable technical-cooperation funding:	US\$385,000	22%
	<b>Total IDB Lab Contribution:</b>	<b>US\$385,000</b>	
	Counterpart resources:	US\$382,000	22%
	Co-financing: <sup>1</sup>	US\$1,000,000	56%
	<b>Total project budget:</b>	<b>US\$1,747,000</b>	<b>100%</b>
<b>Execution and disbursement period:</b>	24 months for execution and 32 months for disbursements		
<b>Special contractual conditions:</b>	As conditions precedent to the first disbursement: (i) the project coordinator will be selected; (ii) the work plan for the first year will be agreed upon with the indigenous federations; and (iii) the commitment agreement for external donor project co-financing in the amount indicated in the budget will be in place.		
<b>Environmental and social impact review:</b>	This operation was screened and classified in accordance with the requirements of the IDB Environment and Safeguards Compliance Policy (document GN-2965-3) in July 2022. As the impacts and risks are limited, the proposed classification of the project is category "C."		
<b>Unit responsible for disbursements:</b>	Country Office in Peru		

<sup>1</sup> The process of obtaining the donor's no objection to this co-financing is underway and is expected to be secured after approval of the IDB Lab portion. Therefore, a funding increase will be processed for the approval of this portion of the project, which will be approved by the corresponding authority at IDB Lab.

## I. THE PROBLEM

### A. Description

- 1.1 In 2021, some 1.9 million hectares were deforested in the Amazon, causing the irreparable loss of ecosystem goods and services of global importance and releasing an alarming amount of carbon emissions into the atmosphere.<sup>2</sup> The Andean countries, defined in this document as Colombia, Ecuador, and Peru, accounted for 13% of this deforestation, an area equivalent in size to Yosemite National Park. The main drivers of deforestation are livestock and soybean production.<sup>3</sup>
- 1.2 Several studies have shown that deforestation rates are lower in indigenous territories. For instance, according to a MapBiomas study conducted in Brazil, between 1990 and 2020 the deforestation rate in indigenous territories was 1%, compared to 20% outside these areas.<sup>4</sup>
- 1.3 At the 2021 United Nations Climate Change Conference (COP26), the Declaration on Forests and Land Use called for support for indigenous peoples and local communities “who depend on forests for their livelihoods and have a key role in their stewardship.”<sup>5</sup> At the conference, governments and private donors pledged US\$1.7 billion in funding to help indigenous and local communities protect biodiverse tropical forests.<sup>6</sup>
- 1.4 The bioeconomy has emerged as an ecosystem conservation and restoration strategy based on the economic use of standing forests. With its positioning of livelihoods as the main focus and entrepreneurship as the essential tool for forest conservation, the bioeconomy poses a promising opportunity to engage in the sustainable development of the Amazon. Most bioeconomy approaches are still in their early stages, however, and need to demonstrate feasibility at scale.
- 1.5 As part of the bioeconomy, indigenous enterprises are gaining visibility as agents of change that connect remote areas of the Amazon with sustainable markets, including coffee and cocoa, ecotourism, nuts, seeds, medicinal or cosmetic plants (such as andiroba, murumuru, and ucuuba), and fisheries. For example, in its [1t.org Amazon Challenge](#) program, the [World Economic Forum](#)<sup>7</sup> highlighted indigenous enterprises as important innovations that should be supported with financing and technical assistance. The United States Agency for International Development (USAID) launched a program to support indigenous enterprises in the Amazon basin, with Nonprofit Enterprise and Self-sustainability Team Inc. (NESsT) as one of the program's executing agencies.

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<sup>2</sup> Finer, M., N. Mamani, and J. Spore (2022); Amazon Deforestation Hotspots 2021. Monitoring of the Andean Amazon Project (MAAP): 153.

<sup>3</sup> What are the Biggest Drivers of Tropical Deforestation? *World Wildlife*, Summer 2018.

<sup>4</sup> The Facts About the Role of Indigenous Land in Protection of the Forests, MapBiomas.

<sup>5</sup> Glasgow Leaders' Declaration on Forests and Land Use, UN Climate Change Conference UK2021, 2 November 2021.

<sup>6</sup> Governments and private funders announce historic US\$1.7 billion pledge at COP26 in support of Indigenous Peoples and local communities, Ford Foundation, 1 November 2021.

<sup>7</sup> 1t.org The Amazon Basin. World Economic Forum.

- 1.6 Indigenous enterprises need to be strengthened to improve living conditions and conserve the Amazon basin. They remain small and informal, owing to several factors, including a lack of detailed market knowledge, understanding of value chains, and business experience; as well as limited access to working capital and technical assistance for community actors, which have to align with indigenous communities' worldviews.
- 1.7 A growing number of initiatives are emerging to support the indigenous economy and build capacity on the ground. Despite this surge in enthusiasm, all of these efforts are led by large international or national nongovernmental organizations (NGOs) that act as intermediaries between capital sources and indigenous enterprises. Based on IDB Lab's and NESsT's experience, few initiatives to promote the indigenous economy are led by indigenous organizations, despite the obvious commonalities between these organizations and indigenous enterprises in terms of vision, values, and commitments.
- 1.8 Conversations with indigenous federations held by NESsT and the IDB have pointed up the fact that the federations are deeply interested in serving as facilitators for the indigenous economy. Those conversations also provided the opportunity to explore the importance of maintaining links between communities and enterprises rooted in indigenous culture, binding together product and sector knowledge, and connecting indigenous enterprises with local business ecosystems, such as chambers of commerce. However, indigenous federations need to strengthen their technical capacity to play a leadership role in promoting the indigenous economy and participating in the governance structures of social and environmental development projects that enable that economy to thrive.
- 1.9 These problems reveal the need for innovation in the design of new models for indigenous business incubation and governance thereof, with a view to developing and promoting an inclusive bioeconomy.

## **II. THE INNOVATION PROPOSAL**

### **A. Project description**

- 2.1 The project objective is to raise the incomes of the indigenous peoples of Colombia, Ecuador, and Peru by promoting a participatory model for incubating indigenous biobusinesses. The project also seeks to strengthen the federations involved to build their technical capacity so that they can play a greater role in promoting and developing the indigenous economy throughout the region. The project will assist indigenous enterprises in formalizing their forest-friendly business activities and developing sustainable value chains, thus helping to reduce deforestation.
- 2.2 The project is designed to develop and test the participatory incubation mechanism. Lessons learned from this project will serve as input for the design of the participatory governance model under the Community Grants Program to be implemented by the IDB with Green Climate Fund resources.
- 2.3 The project will build on NESsT's track record supporting indigenous enterprises in Colombia, Ecuador, and Peru. Its previous experience was gained through its involvement in the Amazon Indigenous Rights and Resources Activity (AIRR), a USAID-funded program in which NESsT led the indigenous enterprise support

component.<sup>8</sup> The organizations involved in this project have been working together to design and implement indigenous economic structures in Colombia, Ecuador, and Peru, with a view to engaging the federations in indigenous enterprise support programs. In addition, these organizations will benefit from existing networks in indigenous communities in the Amazon, which will help identify additional indigenous enterprises to join their organizations.

- 2.4 **Model/Solution:** The project will use a practical learning approach (**learning-by-doing**) whereby the federations will learn how to manage a business incubator by receiving training and working with NESsT in indigenous enterprise acceleration. NESsT plays an important role as a thought leader in advancing the bioeconomy in the Amazon, having conducted mapping of the region that identified 750 conservation enterprises, 15 sustainable value chains, and 17 impact investors. Its knowledge of and relationships with stakeholders in this environment will help the federations adopt key governance and communication considerations to then carry out the essential steps of the incubation process on their own.
- 2.5 The federations involved in the project will increase their technical capacity so that they can play a more significant role in promoting and developing the indigenous economy throughout the region. They will have the opportunity to connect the different stakeholders within the indigenous economy ecosystem in order to:
- Standardize the definition of indigenous economy;
  - Set the rules governing best practices for the indigenous economy;
  - Manage a participatory governance model that fosters the creation of indigenous bioeconomy enterprises;
  - Gather knowledge on the value chains in which indigenous enterprises operate; and
  - Strengthen local ecosystems so that homegrown enterprises can network with established business partners, such as chambers of commerce, and with other actors in a position to support and coordinate with them, such as local governments, NGOs, and corporations.
- 2.6 The indigenous incubator co-creation and governance model will be tested using a portfolio of 22 indigenous enterprises pre-identified by NESsT in highly biodiverse regions: 10 in Peru (Marañón and Putumayo landscapes), six in Colombia (Putumayo landscape), and six in Ecuador (Putumayo landscape). The pre-identified indigenous enterprises are engaged in handicrafts, agroindustry, tourism, forest food products, and natural medicines. This project hopes to systematize their activities so that they can document and strengthen the climate change mitigation and adaptation features of the products and services they offer. The project will also seek out indigenous enterprises beyond these highly biodiverse landscapes to establish the governance model's capacity and bring new enterprises into the incubator.

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<sup>8</sup> AIRR is a five-year program that started in 2019 and will end in 2024. The World Wide Fund for Nature (WWF) is the lead executing agency.



- 2.7 Examples of indigenous enterprises that may take part in the process include:<sup>9</sup>
- **Asociación de Bosques Nuwas (Peru)**—an ecotourism company made up of members of the Shampuyacu native community of the Awajún ethnic group in the department of San Martín. In addition to working in ecotourism, the company manages a nursery with more than 100 varieties of medicinal plants that are processed into premium infusions and then sold in Lima.
  - **Amazónica de Colombia**—a company that produces cacay (*Cayodendron orinocense*), aguaje, and sacha inchi oil, which are raw materials used in the cosmetic, nutraceutical, and pharmaceutical industries. The products are grown using an agroforestry approach and harvested by the Pasto de Putumayo indigenous community. The company currently works with 20 indigenous families and has customers in Cali, Bogota, and Medellín.
  - **Andi Wayusa (Ecuador)**—an association that produces an energy drink that is based on dried wayusa leaves and sweetened with stevia. The Kichwa people harvest wayusa leaves from their communal family farms and process the products at a local plant.
- 2.8 **Innovation:** The project's innovation lies in its engagement of indigenous federations, not only at the individual country level but at the regional level, in a participatory mechanism for incubating indigenous enterprises. This strategy will help create a participatory indigenous economy that reflects the needs of indigenous communities.
- 2.9 The model's key innovative feature will be the committees that will engage the federations as members, thus involving them in the incubator's governance structure. First, NESsT will lead the co-design of a regional committee with the participation of the federations. That regional committee will develop the general guidelines for selecting and supporting the 15 enterprises that will take part in the incubator. Second, the federations will sit on national committees to provide advice on project implementation and help select the indigenous enterprises and allocate seed capital to each one. Colombia, Ecuador, and Peru already have national indigenous economy committees, designed and promoted by NESsT under the AIRR program. This project will seek to strengthen those national committees—for example, through greater participation of indigenous women.
- 2.10 NESsT will document the participatory governance model for replication in other initiatives, i.e., the Community Grants Program mentioned above. In addition, the model has the potential to be applied to other beneficiaries, particularly Afro-descendant communities, which, in NESsT's experience, face similar barriers to indigenous communities in terms of their limited participation in decisions that affect them.
- 2.11 **Beneficiaries.** The project will benefit approximately 1,000 indigenous families in the three countries by improving their quality of life and raising their income. These beneficiaries are part of indigenous enterprises and federations classified according to the categories below. All beneficiaries are considered vulnerable because their average income is below the national average in each country. Upon final selection

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<sup>9</sup> A description of all the projects can be found at [shorturl.at/dQST7](http://shorturl.at/dQST7).

of the enterprises participating in the project, the executing agency will verify this criterion.<sup>10</sup>

- **Indigenous federations:** A selection of federations with which NESsT has maintained ongoing dialogues in each country will position themselves as key promoters of the indigenous economy by establishing safeguards to govern best bioeconomy practices throughout the region. In turn, the federations will learn best practices for selection, acceleration, and participatory financing of indigenous enterprises.
- **Indigenous enterprises:** The enterprises accelerated through the indigenous incubator, all of which are microenterprises, will increase their business management capacity, resulting in sounder business models, broader networks, and better management of their social and environmental impact. In addition, through training and mentoring of business managers, the project will enhance the entrepreneurial skills and culture of indigenous peoples and encourage a new generation of indigenous entrepreneurs.
- **Indigenous workers:** Employees and suppliers of the incubator's indigenous enterprises will benefit from the formalization and strengthening of those businesses. Specifically, workers will enhance their skills by receiving better market information; develop a greater sense of job ownership as their responsibilities and hours increase; and feel that their livelihoods are more stable.
- **Indigenous communities:** The project will benefit indigenous communities that live in and support the conservation of forests and ecosystems in the Amazon region. First, the governance of the incubator will be better aligned to the needs of the communities. The second benefit pertains to the strengthening of indigenous enterprises, which will make them better able to advocate for local communities and will step up their efforts to preserve and protect local forest ecosystems.

2.12 **Component I: Capacity-building for indigenous federations to design the governance model (IDB Lab: US\$69,300; Co-financing: US\$137,470; counterpart contribution: US\$42,480).** The objective of this component is to establish a regional committee and strengthen the existing national committee in each of the three countries to guide the structuring of a governance model by the federations and oversee its implementation and results. The executing agency will use a methodology of co-creation with the indigenous federations to develop a participatory governance model for enterprise incubation that will include training, sharing of best practices, and the development of policies and guidelines. Specifically, the activities under this component are: (i) consulting engagements for the development and implementation of the training program and governance framework; and (ii) consulting engagements to strengthen the indigenous economy committees with regard to the incubation process. The latter will include travel, transportation to the areas where the indigenous enterprises operate, and

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<sup>10</sup> GDP per capita as of December 2021: Peru – S/ 2,259; Colombia – Col\$2,024,785; and Ecuador – US\$499. Source: The Economist Intelligence Unit.

workshops. The project will include the equal participation of women on the committees and in the advisory and training processes.

- 2.13 The expected results of this component are: (i) design of one training document on participatory governance, with a view to promoting an incubation process validated by the indigenous federations and organizations; (ii) strengthening of four indigenous organizations with respect to the incubation process, via the indigenous economy committees; (iii) one regulation for the participatory governance model for business incubation; and (iv) at least 50% of the enterprises involved in the project achieving the target of having 40% of their participants or employees be women.
- 2.14 **Component II: Strengthening of indigenous enterprises through incubation (IDB Lab: \$250,240; co-financing: \$601,980; counterpart contribution: \$250,410).** This component's objective is to incubate 15 indigenous enterprises with technical and financial support so that they can formalize and grow their operations. The federations will learn how to implement an incubator by working with NESsT throughout the incubation process. The specific activities under this component are: (i) business capacity-building for indigenous enterprises; (ii) identification of a pipeline of indigenous enterprises; and (iii) financing to enable 15 indigenous enterprises to implement environmentally sustainable and marketable programs or products.
- 2.15 The project will train the enterprises on gender equity, gender metrics, and development of internal policies related to diversity and inclusion, discrimination, and harassment. In addition, during the selection phase, the project will use an environmental due diligence form to analyze environmental and social risk factors associated with the indigenous enterprises' operations.<sup>11</sup> During the incubation phase, the project will provide the indigenous enterprises with training and advisory services on sustainable environmental and social management, based on NESsT's environmental management system, and will monitor the enterprises in order to reduce environmental and social risks. The training will also aim to strengthen the products and services offered by the enterprises, so that they incorporate key climate change mitigation and adaptation features. Some of these products and services involve sustainable agricultural production, and the project will work towards implementing and documenting specific conservation practices, which will be defined prior to the intervention for each type of enterprise. Both the definitions and the selection of actions to be taken with each enterprise will be subject to adherence to the Bank's environmental sustainability criteria. In conjunction with the federations and associations, the executing agency will establish the basic minimum criteria for implementation and measurability of a set of gender equitable practices within the enterprises, for their subsequent implementation.
- 2.16 The expected results of this component are: (i) 15 indigenous enterprises adopt new biobusiness and social and environmental impact practices; (ii) at least six indigenous enterprises significantly increase their revenues, by 25%; (iii) 15 indigenous enterprises incorporate processes that ensure the participation of women into their policies and operations; (iv) 15 indigenous enterprises have access

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<sup>11</sup> NESsT has the following policies to guide its work: (i) Anti-Discrimination Policy; (ii) Child Protection Policy; (iii) Lending Manual, which includes its Environmental Management Policy; and (iv) Impact Management Guide.

to financing (US\$555,000 in total) to expand their operations and markets; and (v) 15 indigenous enterprises are accelerated and in operation.

- 2.17 **Component III: Dissemination, systematization, and scaling of the model (IDB Lab: \$65,460; co-financing: \$74,120; counterpart contribution: \$26,520).** The aim of this component is to systematize the participatory governance model and share it with other indigenous organizations and the bioeconomy ecosystem. The specific activities under this component are: (i) consulting engagements and knowledge-sharing workshops to facilitate systematization of the governance model; and (ii) awareness-raising and dissemination of the governance model by developing success stories to be shared via the IDB, NESsT, and indigenous federations' communication channels.
- 2.18 The expected results of this component are: (i) a formal report on the program's lessons learned and recommendations on how to scale the incubation of indigenous biobusinesses through a participatory, sustainable governance model; (ii) requests from at least two new indigenous organizations to participate in the governance model; and (iii) design and implementation of a project awareness and dissemination campaign.

## **B. Results, metrics, monitoring, and evaluation**

- 2.19 In terms of expected impact, the revenues of the indigenous enterprises should grow by 10% over the baseline by the end of the project, and at least 1,000 indigenous families involved in these enterprises or their value chains in Colombia, Ecuador, and Peru will benefit from the participatory model for biobusiness incubation. This entails: (i) a systematized, accessible, and transferable participatory governance model for biobusiness incubation; (ii) 15 strengthened indigenous bioeconomy enterprises sustainably increase their revenues by at least 10%; and (iii) 100% of the strengthened indigenous enterprises contribute to biodiversity conservation and provide decent work. In terms of expected outcomes, the project will co-design and test a management model with indigenous organizations that will enable the sustainable incubation of biobusinesses in the Amazon. Specifically, (i) four indigenous organizations will have the management capacity to implement the governance model and promote their enterprises; (ii) a regional committee made up of indigenous organizations will be established and operational; and (iii) women will account for 50% of the regional committee's members.
- 2.20 **Gender.** The project will include a strong gender component at all levels to provide equal opportunities for women and men. The gender approach will ensure that women are engaged in the co-design and co-management of the incubator's participatory governance, with women serving in roles on the regional committee and the national committees. The aim is to have 50% of the regional committee's participants and at least 40% of the participatory governance trainees be women. In addition, the project will advise indigenous companies on gender issues, with a view to strengthening their internal diversity and inclusion policies. To ensure this orientation and emphasis, the project's impact measurement indicators will be broken down by gender. For example, gender-disaggregated data on the number of jobs supported and income received will be collected from each indigenous enterprise.

- 2.21 **Measurement.** The project will use a two-part impact measurement system. The first part will collect indicators under Component I (Capacity-building for indigenous federations to design and implement the governance model) and Component III (Dissemination, systematization, and scaling of the model), which monitor the training modules, regional and national committee governance documents, training plans, participant list, business plans, reports, communication materials, and case studies. Data for these two components will be collected semi-annually via the project status reports. The second part will collect indicators under Component II (Strengthening indigenous enterprises through incubation) using the NESsT Performance Management Tool (PMT). The PMT was designed to help grassroots enterprises manage and measure their performance and social and environmental impact. Impact data will be collected on a quarterly basis directly from the indigenous enterprises and the individuals they employ in their operations. The broad categories of data that the PMT measures include (i) indigenous enterprises' financial and operational performance; (ii) the jobs they support; and (iii) the increase in workers' incomes. NESsT will store the impact data in its Salesforce customer relationship management system.

### **III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND RISKS**

#### **A. Alignment with the IDB Group**

- 3.1 The project is aligned with the IDB Group Country Strategy with Peru 2022-2026 (document GN-491-1), published in July 2022, which, in contrast to the strategy for the previous period, emphasizes boosting work in the Peruvian Amazon. The project aligns with two of the priority areas; (i) productive development aimed at narrowing gaps, as the project will support productive development in remote areas like the Amazon and will also promote training, advisory services, and organizational strengthening to promote biobusiness ventures, thereby ensuring formal employment and greater participation of women in business; and (ii) environmental sustainability and climate change, since the project boosts work in the Amazon, pursuing strategies to promote and develop a better quality of life for native communities based on the creation and promotion of socially and environmentally sustainable enterprises.
- 3.2 The project is in line with IDB Lab's vision and is consistent with the efforts led by IDB Lab to promote better business, especially among vulnerable populations. The project elevates the role of indigenous communities in improving their own ability to lower costs and increase quality and market access, enabling them to generate sustainable commercial transactions that have a major impact on their communities. The project is aligned with the focus area of climate-smart agriculture and the vertical of agriculture and natural capital.
- 3.3 IDB Lab's proposed intervention is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is strategically aligned with the Productivity and Innovation development challenge in that it (i) connects indigenous enterprises with market opportunities, provides technical and financial assistance and support for required certifications, process changes, and necessary retraining, and showcases these enterprises in order to inspire and encourage wider adoption in the sector; and (ii) empowers indigenous and tribal communities through such

activities as increasing access at the community level to information, tools, facilities, and financing, so that these communities can develop sustainable forest management practices and businesses on their own; and (iii) designs an accessible financial mechanism for private sector organizations and indigenous enterprises in the project countries.

- 3.4 As for the project's synergies with other Bank operations, the project is aligned with the Program to Promote Sustainable Financing in the Peruvian Amazon Region (operation PE-L1258), which seeks to increase biobusiness investment and further economic growth in the Amazon region. It also has synergies with the Forest Investment Projects in Peru (operation PE-L1232, PE-G1003), which seek to reduce greenhouse gas emissions resulting from deforestation in the Peruvian Amazon. Lastly, the project has synergies with the Amazon Bioeconomy Fund, a regional project of the Green Climate Fund targeting several countries in the Amazon basin.
- 3.5 The project is aligned with the following sustainable development goals (SDGs) declared by the United Nations General Assembly: SDG1 - End poverty (target 1.4), by enabling access to higher-value markets for small-scale family producers in vulnerable circumstances; SDG 2 - End hunger (target 2.3); SDG 8 - Decent work and economic growth (target 8.3), given that the project seeks to raise the income of small-scale family producers; SDG 15, by sustainably managing forests, combating desertification, halting and reversing land degradation, and halting biodiversity loss; and SDG 5 (target 5.5) - Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.
- 3.6 Of the operation's total resources, 27% (US\$104,440), which correspond to specific budget items under the Bank's contribution for Component II, will be invested in climate change mitigation and/or adaptation activities, according to the joint methodology of the multilateral development banks. These resources contribute to the IDB's climate finance target (30% of the volume of approvals each year).

## **B. Scalability**

- 3.7 The project has several scalability paths, which are quite viable given that national and foreign governments and private donors recognize the importance of the bioeconomy and the inclusion of indigenous peoples in combating climate change.
- 3.8 The first path consists of replicating the participatory governance model in other community and territorial development initiatives in the Amazon basin. The participatory governance model could serve as a basis for scaling up the 15 enterprises and others with funding from the Community Grants Program to be implemented by the IDB with resources from the Green Climate Fund, which aims to benefit a larger number of indigenous organizations while involving them in program co-management. In addition, the participatory governance model will be disseminated, under Component III of the project, to the region's biobusiness acceleration and incubation initiatives, which have multiplied in recent years but lack participatory models that engage local communities in decision-making. As a follow-up to the project, and based on the results of the participatory governance model, NESsT is interested in exploring, with the IDB and other potential partners, the feasibility of designing and launching an incubator and/or impact investment fund

managed by a team of indigenous professionals, which would be an innovation for the region.

- 3.9 The second path to scalability is to attract new actors and resources to support indigenous-enterprise-driven biobusinesses. NESsT is in talks with international foundations such as the Moore Foundation and the World Wide Fund for Nature (WWF), both of which are interested in supporting the indigenous economy as part of their strategy to mitigate climate change in the region. These organizations are becoming increasingly aware of the need to integrate community-level poverty reduction and income generation programs into their conservation efforts. However, these organizations lack the knowledge and tools to assess the impact of indigenous enterprises. There is a well-founded perception among public and private donors that indigenous enterprises operate on a small scale with limited impact on community income and environmental protection, and that perception limits donors' involvement in the indigenous economy. Component II of the project (Strengthening indigenous enterprises through incubation) seeks to address this limitation by demonstrating that indigenous enterprises can be successfully accelerated and grow to a scale where they can have a more substantial social and environmental impact. These scaling efforts are expected to reach some 40 enterprises and 5,000 families over the next five years.

### **C. Project and institutional risks**

- 3.10 The project entails the following risks. Component I: The indigenous federations selected to participate in the participatory governance model have had little experience with engagement and decision-making in programs that affect their communities. For this reason, the federations were consulted to confirm their interest, and they expressed a strong desire to co-design and co-manage bioeconomy programs. In addition, NESsT has the experience of having participated in the national indigenous economy committees with the federations, who have demonstrated their commitment to playing a key role in advancing this agenda within the communities. The federations have limited institutional capacity, however, and little knowledge of the indigenous economy. For instance, none of the federations have their own units or professionals focusing on the indigenous economy. To mitigate this limitation, the project has allocated US\$80,000 for institutional strengthening of the federations with regard to the indigenous economy and the incubation process. In addition, the project will organize advisory activities and knowledge-sharing workshops.
- 3.11 Component II: Enterprise acceleration always entails some element of risk. The 15 indigenous enterprises selected by the project may face barriers (e.g., commercial, production-related, or logistical) to implementing their growth plans. To mitigate this risk, the project will conduct due diligence on each enterprise, analyzing its leadership, products and services, market, processes, policies, and growth plans. NESsT identified four enterprises and has supported them with business training since early 2021. The established relationships with these four enterprises will help to lessen the risks in selection for incubation. To identify the other companies, the project will design a recruitment process that will engage NESsT networks and federations in four countries. Those companies will undergo the same due diligence process, with the additional step of submitting an application to participate in the project.

## IV. INSTRUMENT AND BUDGET PROPOSAL

- 4.1 The project's total cost is US\$1,767,000, of which (i) US\$385,000 (22%) will be contributed by IDB Lab; (ii) US\$1,000,000 (40%) will be contributed in the form of co-financing; and (iii) US\$382,000 will be in-cash counterpart resources.
- 4.2 The instrument to be used with the IDB Lab resources is nonreimbursable technical-cooperation funding for indigenous enterprise training and preparation and also for strengthening the 15 selected indigenous enterprises.

Budget summary					
Component	%	Financing		Counterpart resource	Total (US\$)
		Cofinancing	IDB Lab	NESsT (cash)	
Component I: Capacity-building for indigenous organizations to design and implement the governance model	14%	137,470	69,300	42,480	249,250
Component II: Strengthening of indigenous enterprises through incubation	62%	601,980	250,240	250,410	1,102,630
Component III: Dissemination, systematization, and scaling of the model	9%	74,120	65,460	26,520	166,100
Coordination and administration	12%	145,590	-	62,590	208,180
Auditing and evaluations	2%	40,840	-	-	40,840
<b>Total</b>	<b>100%</b>	<b>1,000,000</b>	<b>385,000</b>	<b>382,000</b>	<b>1,767,000</b>
		<b>56%</b>	<b>22%</b>	<b>22%</b>	<b>100%</b>

## V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

### A. Description of the executing agency

- 5.1 Nonprofit Enterprise and Self-sustainability Team Inc. ([NESsT](#)), incorporated in Maryland and domiciled in California, will serve as project executing agency and will sign the agreement with the Bank. NESsT invests in enterprises that generate social and environmental impacts in emerging economies. Since 1997, NESsT has trained 20,000 entrepreneurs, advised 1,200 enterprises, and financed 200 entrepreneurs, impacting 667,000 underserved people. NESsT operates in Latin America from offices in São Paulo and Pará (Brazil), Lima (Peru), Bogota (Colombia), and Santiago (Chile). NESsT achieves its mission by incubating and financing high-impact social and environmental enterprises that create viable income opportunities for vulnerable communities, while positively contributing to climate change adaptation and mitigation.
- 5.2 In 2019, NESsT launched NESsT Amazonia to support the development of small enterprises in sustainable value chains in the Amazon. The organization has an eight-person team devoted to the bioeconomy, which enables it to work closely with indigenous federations and enterprises, and it has experience working with national indigenous federations under the AIRR program. NESsT Amazonia supports 46 bioeconomy enterprises that impact the livelihoods of 6,000 people across a dozen value chains in four countries. NESsT Amazonia is organized around three programmatic pillars:
- The LatAM Fund, which provides loans averaging US\$250,000 to small enterprises operating sustainable value chains in the Andes-Amazon region. To date, the fund has allocated US\$1.75 million in loans to six enterprises in



the Peruvian Amazon that support the employment of some 2,000 small-scale farmers and vulnerable people.

- The Amazonia Accelerator, which provides investment-readiness support in the form of business mentoring, grants, and reimbursable grants. To date, Amazonia Accelerator has worked with 10 bioeconomy enterprises in Brazil, Colombia, and Peru.
- The Indigenous Incubator, which provides business training and support for value chain integration to enterprises led by indigenous communities and entrepreneurs. Through the AIRR program, the incubator has supported 29 indigenous enterprises in Brazil, Colombia, Ecuador, and Peru.

5.3 NESsT also plays an important role as a thought leader in advancing the bioeconomy in the Amazon, and has conducted mapping of the region that identified 750 conservation enterprises, 15 sustainable value chains, and 17 impact investors. NESsT and USAID co-organized the Amazon Impact Investing Forum in Manaus, Brazil, in 2019, and NESsT is partnering with the World Economic Forum in the 1t.org Innovation Challenge for the Amazon - Brazil.

5.4 NESsT has collaborated with IDB Lab in the past. In 2004, IDB Lab engaged NESsT to run social entrepreneurship workshops in Guyana, and in 2007, IDB Lab funded replication of NESsT's model from Chile to Argentina, Ecuador, and Peru. Under an ongoing project, IDB Lab is providing NESsT with a US\$1 million loan (loan 4417/MS-RG), which is being used to finance high-growth social impact tech ventures. This loan operation was signed in 2019, and the loan has a term of eight years. NESsT is meeting all loan obligations.

## **B. Structure and implementation arrangements**

5.5 **Project execution unit.** The project execution unit will consist of a team within NESsT. It will have a project manager, an administrative-financial team, and a technical team responsible for training and mentoring of the federations, acceleration of the indigenous enterprises, and dissemination and systematization. The project manager will be responsible for implementing the project activities and will coordinate tasks with the rest of the team. The administrative-financial team will be responsible for financial and accounting monitoring of the operation.

5.6 **Regional committee.** The project will establish a regional committee to develop the participatory governance mechanism for business incubation. In addition, the regional committee will be responsible for developing the general guidelines for selecting and supporting the enterprises that will participate in the incubator. The criteria for committee participation, including IDB Lab's role in the project's governance, will be co-designed by NESsT and the federations once the project is launched, through a consultative process that will include the IDB.

## **VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS**

- 6.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will commit to the standard IDB Lab arrangements for results-based disbursements and the Bank's procurement<sup>12</sup> and financial management<sup>13</sup> policies, as specified in Annexes V and VI.

## **VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY**

- 7.1 **Access to information.** No information generated by the project is considered confidential pursuant to the Bank's Access to Information Policy and/or the timing of the future release of confidential information. The executing agency will give the Bank an unlimited, nonexclusive, royalty-free, perpetual license to use, copy, distribute, reproduce, exhibit, and publicly perform any project work or outcome. The Bank may disclose, reproduce, and publish any information relating to the project or to its participation in the financing thereof.
- 7.2 The executing agency will give the Bank an irrevocable, worldwide, perpetual, royalty-free, nonexclusive license to use, copy, distribute, reproduce, exhibit, and publicly perform any outputs owned by the executing agency as a result of project implementation, as well as to develop derivative works. This includes training materials for the indigenous federations, associations, and enterprises, as well as any technical assistance modules. The Bank may grant sublicenses to third parties without requiring new authorizations or licenses from the executing agency.

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<sup>12</sup> Link to the [Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank](#)

<sup>13</sup> Link to the [Financial Management Guidelines for IDB-financed Projects](#)