

SUMMARY OF THE PROJECT IN DESIGN * (*)

Nature-Based Solution to Unlock the Value of Natural Resources

PITCH ELIGIBILITY DATE		COUNTRY(IES)
03/28/2022		Colombia; Costa Rica; Peru
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
Intrinsic Exchange Group		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
C (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
US 3,500,000	US 1,250,000	US 2,250,000
DESCRIPTION		

The problem: We face large and complex challenges, including climate change, a biodiversity crisis, and inadequate means to efficiently transition to a sustainable, stable, and more equitable global economy. The root cause of many of our environmental and social problems stems from a fundamental market failure – the exclusion of nature from the mainstream economy.

To rebalance the system, we have historically relied on philanthropy and policy remedies such as taxes, regulation, and artificial market mechanisms (e.g., cap & trade) to fix market failures. Despite best efforts, these voluntary and policy remedies fall short in several ways, including:

- Insufficient allocation of resources given the magnitude of environmental and social problems;
- Reliance on transfers of wealth rather than wealth creation; and
- Strong resistance by those on whom the taxes and regulations are imposed.

The bottom line is that when nature is not an asset that can directly produce income and wealth, it is very difficult to protect and grow vital natural assets and bring about systemic change at the scale we need. As has generally been recognized, innovative tools are needed to unlock market-based solutions that support local and regional social and environmental goals.

The solution: IEG is pioneering an innovative new asset class based on Natural Asset Companies (NACs) – a new type of corporation that will hold the rights to the ecosystem services produced in a designated area (these rights will be licensed similarly to other ‘run with the land’ rights like air rights or water rights). Ecosystem services are the valuable benefits nature provides, which include carbon sequestration, soil fertility, water purification, habitats for wildlife, and many others.

IEG has partnered with the New York Stock Exchange (NYSE) to list NAC equities for trading. By doing so, they will harness the very market forces that have intensified many environmental and social problems to instead create abundance,

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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.

resilience, and a compelling investment opportunity by including natural assets in the mainstream of the economy. By accessing the capital markets, NACs will be able to address the magnitude of the problem while creating financial value for asset owners and investors, as well as environmental and social benefits for local communities.

The objective of this project is to identify and develop suitable projects in Costa Rica, Peru, and Colombia that contain significant ecological wealth and would be appropriate for the creation of a NAC that can eventually be taken public on NYSE.

The beneficiaries The NAC structure is designed to compensate natural asset owners – including governments, Indigenous Groups, or local farmers – for protecting, preserving, and restoring healthy ecosystems. NACs will be required to ensure the benefits from the resources generated by a NAC, are shared with and support local communities in a fair and equitable manner.

Comprehensive stakeholder engagement mapping and analysis will be conducted as a prerequisite to initiating the design of a NAC. These analyses provide the basis from which to build meaningful stakeholder engagement strategies and identify the range of beneficiaries for equitable benefit sharing.

The partner: Intrinsic Exchange Group, Inc (IEG): is the executing agency and will oversee the entirety of the project. The company's mission is to convert natural asset value into financial capital to provide the resources necessary to fund conservation and regenerative practices at scale, powering us to a truly sustainable, circular economy. IEG is pioneering an innovative new asset class based on Natural Asset Companies (NACs) – a new type of corporation that will hold the rights to the ecosystem services in a designated area.

The IDB Lab's contribution: IDB Lab's contribution will be \$1.25 million, representing \$250,000 in non-reimbursable technical assistance and \$1,000,000 in a contingent recovery investment grant. IDB Lab resources will be used for a variety of project-related expenses, including but not limited to:

- The review of legal and regulatory policies to determine a viable legal path for the formation and licensing of ecosystem services to a NAC;
- Extensive analysis and engagement of stakeholders; Scope and prioritization of geographies for each NAC;
- Conducting preliminary assessments of ecosystem services;
- and legal structuring to form each NAC and prepare for the IPO process.

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