

Environmental and Social Review Summary (ESRS)

Project Name:	Newtopia II: Supporting entrepreneurs in Latin America and the Caribbean from idea to scale
Project Number:	RG-Q0140
Project Location:	Argentina; Bolivia; Brazil; Chile; Colombia; Costa Rica; Mexico; Peru
Executing Agency:	Newtopia Latam VC LLC
Type of Operation:	Investment
Publication Date:	October 2024

1. Lab Review

The project consists of an investment in the Newtopia II Fund (the “Fund”). The fund’s strategy is to invest in innovative and scalable early-stage companies that seek to generate a positive impact through technological solutions.

The environmental and social due diligence (“ESDD”) of the operation consisted of the documentary review of the Fund (ESG policy, human resources policy, *ESG screening tool* and the internal grievance redress mechanism), the presentation of the impact thesis by the Fund and a working meeting to resolve doubts regarding the Environmental and Social (“E&S”) risk management procedures that are planned to be implemented.

2. Environmental and social categorization and justification

The Fund expects to invest in up to 45 companies at seed and pre-seed stages , seeking to obtain an equity stake of between 5%-15% in each portfolio company.

The fund will have a sector- and vertical-agnostic approach, with a primary focus on companies developing SaaS/Enterprise, Fintech, E-commerce/Marketplace, Web3, HRTech, Sustainability/ClimateTech, Healthtech , Edtech solutions , among others. In this sense, the key selection criteria for the fund include: 1) high level of innovation, 2) potential for regional/global scale, 3) team of exceptional entrepreneurs, and 4) mission to generate a positive impact.

E&S risks associated with the potential portfolio are low to medium in nature and are mostly related to labor and working conditions. In this regard, the operation has been categorized as FI-2 in accordance with the IDB’s Environmental and Social Policy Framework (“ESPF”), since some of the portfolio investments are expected to have limited adverse E&S impacts, are few, site-specific, largely reversible and easily addressed through mitigation measures.

3. Environmental and Social Risks and Impacts

The environmental and social risks of the operation are associated with the Fund’s ability to manage the E&S risks of its investments.

The Fund has an ESG Policy that applies to its operations and to the *startups* in which it invests. The policy includes a list of excluded activities (which must be aligned with the IDB’s Exclusion List), promotes compliance with the regulatory framework, including climate commitments where companies operate, and the evaluation of the environmental impacts of the companies in which they invest.

Although the Fund does not have an Environmental and Social Management System (“ESMS”), it has developed a screening tool to identify potential environmental, social and governance risks in the companies in which it invests, which it will apply to new investments.

The Fund has appointed a person to lead the management of E&S aspects .

Regarding compliance with Performance Standard (PS) 2, the Fund has a Human Resources Policy that establishes the principles and values that govern the operation, as well as general aspects of the hiring process and employment benefits and the Fund's commitment to health and safety at work, gender equality and non-discrimination.

The Fund has an internal Grievance Redress Mechanism for its employees.

4. Mitigation Measures

The Fund shall adopt the IDB exclusion list as part of the ESMS and apply it to all its investments.

The Fund shall complete the development of its ESMS, which shall include at least: assignment of responsibilities, procedures for categorization and due diligence of subprojects, including material climate risks, monitoring procedures and an external grievance redress mechanism. The ESMS policies and procedures shall be aligned with the IDB's ESPF and the IFC's Interpretation Note on Financial Intermediaries ¹.

The ESDD of subprojects will be proportional to the applicable risks associated with their portfolio. For early-stage companies, requirements will be limited to the Exclusion List, relevant national E&S laws and labor review in line with PS 2 for all potential investments. As portfolio companies grow and E&S risks evolve, the IDB Performance Standards will be applied using a risk-based approach. Since the Fund may make follow-on investments in portfolio companies, in such cases, requirements will need to be revised to include an enhanced approach, as applicable.

5. Environmental and Social Action Plan (ESAP)

No	Issue	Activity	Deliverable	Delivery Date
1	ESMS	Complete the development of the ESMS aligned with the IDB ESPF and the IFC Interpretation Note on FI	E&S Policies and Procedures	6 months since the closing of the operation with BID Lab
2		Provide ESDD Reports for the first 5 operations since the closing of the operation with BID Lab .	ESDD report with Action Plan as appropriate	Prior to the approval of investments
3	External Grievance Redress Mechanism	Develop an external grievance redress mechanism that establishes the procedure for receiving, responding to and registering external communications (including grievances)	External Grievance Redress Mechanism	6 months since the closing of the operation with BID Lab

¹ <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>