

Ex-Ante Evaluation

1. Name of the Project

Country: Latin American Countries

Project: MGM Sustainable Energy Fund LP

(Investment project under the Private Sector Investment Finance)

Signing Date: November 28, 2014

Investee: MGM Sustainable Energy Fund LP

2. Background and Necessity of the Project

In Latin America, since environmental concerns represented by more natural disasters such as hurricanes and El Nino are serious, each nation tackles environmental issues trying to integrate the region. According to World Bank, approximately 600TWh of electricity generated by renewable energy is necessary in that region by 2030. Also, Inter-American Development Bank (IDB) stated in 2008 that reduction in energy costs is not promoted due to the lack of know-how and financing resources although 36 billion USD of energy costs can be decreased through 10% of energy efficiency by 2018.

In the Priority Policy for Development Cooperation made by the Ministry of Foreign Affairs, the support for energy efficiency, renewable energy, and climate change is considerably important for Latin America. In this line, Japanese government reached agreement for Joint Crediting Mechanism (JCM) with Costa Rica and Mexico. Additionally, JICA thinks that countermeasure for climate change including promotion of energy efficiency and renewable energy is one of the most critical issues in that area; especially, JICA tries to facilitate more utilization of Japanese products or knowhow. Also, JICA makes a strategy to implement 1 billion USD of co-finance in the area of climate change with IDB.

This project supports energy efficiency and renewable energy projects through investment in the fund composed by experts in those projects whose Limited Partners (LPs) are international organization like Global Energy Efficiency and Renewable Energy Fund (European Investment Bank (EIB)), Multilateral Investment Fund (IDB), Global Environment Facility (GEF), and Deutsche Investitions- und Entwicklungsgesellschaft (DEG). This project is absolutely necessary and significant because it corresponds to the development subject in the area and policies made by governments of both Latin American countries and Japan.

3. Project description

(1) Project Objective

The objective of the project is to develop energy efficiency and renewable energy projects which reduces emissions of green-house gases by investing energy efficiency and renewable energy projects, through which contributes to sustainable economic growth and mitigating climate change in Latin America.

- (2) Project Site/Target Area : Colombia, Mexico, Central American and Caribbean countries.
- (3) Project Component(s)
- ① Equity Investment Amount: 10 million USD
 - ② Project Outline: The Project supports energy efficiency and renewable energy projects in Latin America in which low-carbon technologies are utilized through the fund consisting of experts in energy efficiency and renewable energy markets. The fund obtains profits from investment in energy efficiency and renewable energy projects.
 - ③ General Partner: MGM Innova Capital LLC
 - ④ Estimated Fund size : 50 million USD
- (4) Schedule
- End in November 2024 (Investment Period: May 2013 ~ May 2018, Divestment Period: May 2018 ~ November 2024. Twice options for extension,)
- (5) Environmental and Social Consideration/Poverty Reduction/Social Development
- ① Environmental and Social Consideration:
 - a) Category: FI
 - b) Reason for Categorization: This project is designed to provide financing to financial intermediaries. Sub-Projects cannot be specified prior to JICA's approval for financing, and they may have environmental impacts under the JICA Guidelines for Environmental and Social Considerations (April, 2010) (JICA's Environmental Guidelines).
 - ② Promotion of Poverty Reduction: None
 - ③ Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS Participatory Development, Consideration for the Person with Disability etc.): None
- (6) Collaboration with Other Donors: IDB (MIF), GEF, EIB, DEG co-invest in the fund.
- (7) Other Important Issues: None

4. Targeted Outcomes

(1) Quantitative Effects:

1) Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline (Actual Value in 2014)	Target (2024) 【After project completion】
Number of Investment	0	[Undisclosed]
Equity IRR (%)	-	[Undisclosed]
Reduction of carbon emission (tCO ₂)	0	[Undisclosed]
Renewable energy generation (MWh)	0	[Undisclosed]

(2) Qualitative Effects

The fund contributes to mitigating climate change and facilitating private investment into low-carbon technologies through improving awareness for energy-efficient and renewable energy products. Also, it utilizes Japanese low-carbon technologies, through which encourages Japanese enterprises to expand their business in Latin America.

5. External Factors and Risk Control

(1) Risk during operations and monitoring: Energy efficiency projects do not contain exit risks since they are transferred to end users, which never affects the return. On the other hand, there are exit risks in renewable energy projects, in which the fund sells them to other entities.

(2) Exit Strategy: Exit when the fund period ends.

6. Lessons Learned from Past Projects

The evaluation report of the past fund investment projects points out that it is effective for LPs to ensure rights as an investor and get agreement with operators over their exit policy prior to substantial investment.

7. Plan for Future Evaluation

(1) Indicators to be Used

- 1) Equity IRR (%)
- 2) Reduction of carbon emission (tCO₂)
- 3) Newly generated renewable energy (MWh)

(2) Timing

Term Closing Year (FY2024)

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