ADB

Extended Annual Review Report

Project Number: 37908
Investment Number: 7187
September 2014

Equity Investment
FEGACE Asian Sub-Fund LP
(Regional)

This is an abbreviated version of the XARR which excludes commercially sensitive and confidential business information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

ABBREVIATIONS

ADB	–	Asian Development Bank
ESCO	–	energy service company
ESHS	–	environment, social, health, and safety
FIRR	–	financial internal rate of return
FEGACE	–	FE Global/Asia Clean Energy
LPA	–	limited partner agreement
PRC	–	People’s Republic of China
RRP	–	report and recommendation of the President

NOTE

In this report, “$” refers to US dollars.

Vice-President	L. Venkatachalam, Private Sector and Cofinancing Operations
Director General	T. Freeland, Private Sector Operations Department (PSOD)
Officer-in-Charge	A. Taneja, Private Sector Investment Funds and Special Initiatives, PSOD
Team Leader	A. Taneja, Principal Investment Specialist, PSOD

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EXECUTIVE SUMMARY

In November 2003, the Board of Directors of the Asian Development Bank (ADB) approved an equity investment of up to $20 million in the FE Global/Asia Clean Energy (FEGACE) Asia Sub-Fund LP, a subfund of the FEGACE Services Fund LP (collectively, the fund). The fund's emphasis was to invest across Asia in energy efficiency companies and projects.

The fund raised $63.4 million in commitments from 10 investors. ADB committed $10 million of the $20 million approved amount, for a 15.8% stake in the fund. The lead investors of the fund were Chubu Electric Power and Mitsubishi Corporation, which each contributed $10 million and provided specialists, staff, under a technical services agreement.

The fund began operations in May 2004 and had a 5-year investment period during which it invested $53 million in nine companies in India, the Philippines, the People's Republic of China, Singapore, and Thailand. The fund's 10-year operational term ended in May 2014, when it became eligible for its first 1-year extension. As of May 2014, the fund had exited three of its nine investments.

The fund is rated *less than satisfactory* by ADB, for private sector development. The fund's original business model was based on contractual returns and carbon credits from ESCO projects that focus on energy conservation and efficiency. However, the fund could not source appropriate ESCO projects.

Business success and economic sustainability are rated *unsatisfactory*. The fund, as per ADB, is not expected to generate positive returns. Several factors contributed to the unfavorable financial performance of the fund: (i) the capital-intensive and long gestation nature of the projects coupled with a relatively small fund size, which limited its ability to provide funding for working capital and alleviate operational delays; (ii) legal difficulties with a few investee companies and contractors resulting in project delays; and (iii) large upfront losses, from initial investments.

ESHS performance is rated *satisfactory.* The fund incorporated ADB's ESHS guidelines into its decision making and ownership practices both in the pre-investment and post-investment phases.

ADB investment profitability is rated *unsatisfactory.* The net return is expected to be substantially below the targeted return of 15%–20%.

ADB's work quality, consisting of (i) screening, appraisal, and structuring; and (ii) monitoring and supervision, is rated *less than satisfactory*.

Overall, the investment is rated *less than successful*. The experience with the fund points to several lessons that ADB could incorporate in its future selection of sustainable energy funds and in shaping its clean energy investment strategies.