

Asian countries

FY2021 Ex-Post Evaluation Report of Private-Sector Investment Finance

“Asia Climate Partners LP”

External Evaluators: Hideyuki Takagi, Yasuhito Haneishi

Ernst & Young ShinNihon LLC

1. Project Description



Wind power generation facility constructed by the Project (Source: Project materials prepared by the ACP investment team)



Low-temperature warehouse constructed by the Project (Source: Project materials prepared by the ACP investment team)

1.1 Project Outline

Asia Climate Partners LP (hereinafter referred to as the “Project” or “ACP”) was implemented to promote countermeasures against climate change based on the provision of investment to companies whose businesses can contribute to the environment and society, including renewable energy, clean technology, efficient use of natural resources, water resources, agriculture and forestry, thereby contributing to sustainable economic growth in Asian countries. ACP was established as a vehicle for the promotion of countermeasures against climate change in the Asian region by public institutions and private companies. The Asian Development Bank (ADB) and the ORIX Group are involved in the establishment and operation of one of the largest climate change fund to be established so far with a focus on the Asian region. The expectation was that the participation of JICA in ACP through collaboration with ADB will have the following benefits: provide additional impetus to the mobilization of private funds for climate change countermeasures in the Asian region; expand scope of investment through an increase in the investment quota; leverage the knowledge and local networks of JICA through existing cooperation schemes; and encourage the entry of Japanese companies with advanced technology into the target investment sectors.

2. Outline of the Evaluation Study

2.1 External Evaluator

Hideyuki Takagi, Yasuhito Haneishi (Ernst & Young ShinNihon LLC)

2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule.

Duration of the Study: November 2021- February 2023

Duration of the Field Study: Not conducted (Instead, a desk evaluation was carried out, based on online interviews and indirect sources, such as company publications.)

2.3 Constraints during the Evaluation Study

In this ex-post-evaluation, the ability to collate data especially on the sustainability of the sub-projects was limited by the fact that the ex-post evaluation was carried out after the fund had been terminated. Because there was no longer any relationship with the fund, the investee companies were not obliged to cooperate with the evaluation process, and not least because they were under different ownership compared to when the fund's initial investments were made. The information obtained in this ex-post evaluation was limited compared to the information that would have been collected from a field survey.

3. Conclusion

The objective of the Project was to promote countermeasures against climate change based on the provision of investment to companies whose businesses can contribute to the environment and society, including renewable energy, clean technology, efficient use of natural resources, water resources, agriculture and forestry through investment to the fund composed of public and private sector experts who had specialist knowledge in the relevant sectors. The results of the ex-post evaluation were summarized below.

Relevance: In Asian countries, carbon dioxide emissions are an issue because the majority of power generation is based on fossil fuels, while demand for electric power continues to increase. Therefore, the practice of low-carbon growth has become an important element of global climate change countermeasures, including initiatives to secure electricity that do not depend on fossil fuels in Asian countries.

At both the time of appraisal and that of the ex-post evaluation, the Project has been consistent with the development plans for the promotion of renewable energy and the development needs of low-carbon growth in the target countries.

Coherence: At the time of appraisal, the Project was consistent with the aid policy of Japan and the development cooperation policy of JICA which both aim to achieve goals in the field

of climate change. The Project has been consistent with efforts to reduce greenhouse gas (GHG) emissions based on the Paris Agreement which came into effect in 2016 and the provision of funds by developed countries for this purpose. It has also been consistent with efforts to achieve objectives such as Sustainable Development Goals 13 (“Take urgent action to combat climate change and its impacts”).

The Project was expected to support the mobilization of private sector funds for climate change countermeasures in the Asian region, and the Japanese government announced that it would continue to support public and private sector participation to meet the financial requirements for climate change countermeasures. From the time of appraisal to the time of ex-post evaluation, the Project has been consistent with the needs for support through Private Sector Investment Finance.

Efficiency: In the Project, investments were made in the fields of clean energy, resource efficiency, and environmental business targeted by ACP. The outputs of the Project were significantly below the plan in terms of both the number of investments and the total amount invested and the actual period of the Project was significantly shorter than the planned period due to its early termination. The planned number of investments was 15 with a target fund size (total investment) of US\$750 million; the actual number of investments was four with a fund size of US\$447 million as measured by capital commitment (27% of the planned number of investments). The actual amount of capital contributions to ACP was US\$102 million, including fund management expenses, which represented approx. 14% of the targeted total investment amount of US\$750 million. Of the capital contributions to ACP, actual investments in companies totaled US\$68 million. The ratio of fund operating expenses to the investment amount was significantly ahead of the planned ratio, and the Equity IRR of the Project was significantly lower than expected. Therefore, the cost burden was extremely high compared to the investment returns.

Effectiveness: The effectiveness of the Project was evaluated mainly according to the effect indicators set for the promotion of climate change measures, namely the amount of “reduction of GHG emissions” and the amount of “newly generated renewable energy.” The degree of achievement was measured by comparing the total amount of target set for each sub-project, and total of actual value for each subproject at the time of ACP’s exit from the investment. The actual amount of “reduction of GHG emissions” was 3,419,000 tons of CO₂e against the target of 4,903,000 tons of CO₂e (achieved 70%), and the actual amount of “newly generated renewable energy” was 3,668 GWh against the target of 5,204 GWh (achieved 70%), both by implementing sub-projects including wind and solar power generation renewable energy

projects.

Impacts: Regarding the impact of the Project, which is the sustainable economic growth or low-carbon growth of Asian countries, GHG emission reduction from the sub-projects are assumed as relatively high in comparison with the invested amounts although reductions from the sub-projects were small in proportion to the total GHG emission reduction in each target country. In addition, as a private equity fund¹ for climate change, ACP's support included aspects such as environmental, social, and governance issues (hereinafter referred to as "ESG") related initiatives in addition to support for the growth strategies of the investee companies. From a qualitative impact perspective, it is considered that ACP would contribute to the development of low carbon growth through supporting investee companies in the enhancement of their corporate value, including the improvement of their approach to ESG issues. No serious environmental and social issues were identified by the implementation of the Project, and measures were taken for matters pointed out in the environmental and social impact studies.

Sustainability: As for the sustainability of ACP's invested sub-projects, there are differences in the status of each investee company with respect to institutional/organizational, technical and financial aspects, the current status of operation and maintenance, and preventative measures against risks, and there is room for improvement in some areas.

Although ACP had a list of various candidate projects for investment and was preparing to adopt these, few proposals were adopted by the investment committee following the change of investment committee members of the fund. With implementation of investments stalled, it became difficult to continue the activities of the fund. As a result, the fund was terminated early. ACP's period of operation was less than the originally planned which was more than a decade; therefore, the functions and effects of the fund in terms of investments and recovery of the investments were not sustained.

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¹ An investment fund that mainly invests in the stocks of unlisted companies (Bank of Japan website: https://www.boj.or.jp/research/brp/ron_2020/ron201211a.htm/)

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