

## SUMMARY

EXECUTING AGENCY:	E&Co-LAC								
BENEFICIARIES:	Small private energy enterprises engaged in renewable energy projects.								
PROJECT OBJECTIVE:	The Promotion of small, innovative renewable energy projects which can provide economically and environmentally sustainable energy solutions to help the region's energy deficit.								
PROJECT DESCRIPTION:	<p>The Project consists of the provision of funds through E&amp;Co-LAC, a division of E&amp;Co, a U.S. non-profit entity, to support small private enterprises in the implementation of renewable energy projects in Latin America and the Caribbean. E&amp;Co was incorporated by the Rockefeller Foundation in 1994 to provide grant support, technical services, and early stage equity, quasi-equity or loan support to develop "demonstration projects" for renewable energy projects throughout the developing world to prove the case for their financial and environmental sustainability.</p>								
FINANCING:	<table><tr><td>MIF SEIF Facility III-B</td><td>\$2,279,500</td></tr><tr><td>MIF Grant Facility III-A</td><td>\$1,062,000</td></tr><tr><td>SPONSOR (Rockefeller Foundation)</td><td><u>\$3,957,900</u></td></tr><tr><td></td><td>\$7,299,400</td></tr></table>	MIF SEIF Facility III-B	\$2,279,500	MIF Grant Facility III-A	\$1,062,000	SPONSOR (Rockefeller Foundation)	<u>\$3,957,900</u>		\$7,299,400
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TERMS:	<p>MIF SEIF Facility III B - The direct investment funds will be disbursed in two annual tranches into a U.S. dollar escrow account held in an acceptable international financial institution. Funds will then be disbursed, as managed by the E&amp;Co-LAC, into equity, quasi-equity (subordinated loans, preferred shares, etc.) or direct loans to Eligible Energy Enterprises. Investments will be made in parallel with E&amp;Co-LAC funds. The MIF will be repaid at the end of the eight year project life from the proceeds of the divestments of these investments.</p> <p>MIF Grant Facility III A: A non-reimbursable grant will be disbursed in two annual tranches to a U.S. dollar escrow account managed by E&amp;Co-LAC. They will be used to provide grants and services for studies, technical assistance and intermediary services. Grants will be structured, where possible, on a contingent recovery basis (i.e. grants will be repaid if the projects succeed in being financed). The proceeds received by E&amp;Co-LAC will be retained in the non-profit entity for use as a sustainable revolving grant fund.</p>								

**ENVIRONMENTAL  
CLASSIFICATION:**

The Project is classified in Category III.

**SUPERVISION:**

The project documents will include quarterly financial and portfolio evaluation reporting to assess the success rate of projects supported by the initiative. In addition, after the first year and every other year thereafter, a supervision and evaluation will be conducted to assess the portfolio, report on its quality, success rate, and applicability to the Eligibility criteria, as well as to develop potential lessons to be applied throughout the region. The MIF will also have access to all projects in order to complete in-house supervisions, if necessary.

**PROJECT ELIGIBILITY:**

The Project is consistent with the overall objectives of the MIF to provide financing to small and micro-enterprises and to promote environmentally sound and sustainable economic development;

- it will particularly focus on innovative demonstration projects which can be replicated throughout the region;
- it complements and is consistent with macro priorities of the IDB including the following: (i) fostering efficient energy use and nonconventional renewable energy options. (ii) environmental protection and management; and (iii) the promotion of modernization by providing sustainable, cost effective energy solutions to underserved areas;
- it meets local, regional and multinational objectives to increase the level of support for renewable energy and energy efficiency.
- it meets objectives to promote private sector solutions to problems previously addressed only by government entities, thereby supplementing limited government resources.

**PROJECT BENEFITS:**

- 1) **Entrepreneur Support** - The program will work at the enterprise/entrepreneur level to strengthen project proposals through the provision of grant or early stage equity financing to complete required technical, financial, market or other analyses, thereby promoting their ultimate implementation. This is an important complement to government and NGO initiatives designed to promote and provide incentives for project development through the support of technology, regulatory reform, incentives, resource assessments, etc. There are also several private and public initiatives under development to increase the supply of later-stage investment capital. E&Co-LAC will be a bridge between these two forms of assistance.
- 2) **Environmental Impact** - Renewable energy and energy efficiency technologies can provide cost-effective, environmentally sustainable solutions to the increasing energy supply and demand challenges faced by the region. Experts point to the following environmental benefits:

- i) reduced air pollution
  - ii) abatement of global warming
  - iii) use of renewable rather than finite resources
  - iv) diversification of fuel supply
  - v) abatement of deforestation
- 3) **Developmental Impact** - Renewable energy, generated with indigenous resources, can reduce the need to import fuels or extract non-renewable fossil fuels, thereby increasing economic independence. The activity will help to improve the quality of life in urban and rural communities by providing low-cost and environmentally sound energy technologies, as well as by promoting savings through energy conservation.
  - 4) **Regional Nature** - E&Co-LAC's goal will be to promote carefully selected and well-designed demonstration projects which can then be replicated in appropriate locations throughout the region. The lessons learned in the global activities of E&Co will be transmitted throughout the region through the E&Co-LAC network.
  - 5) **Public-Private Partnership** - The project is a unique "public/private" partnership which will leverage MIF funds with private sector funding (Rockefeller Foundation and other potential donors) to the LAC region to supplement the scarce local government and private sector resources available to promote this activity.

**COMPLEMENTARITY  
WITH OTHER IDB/MIF  
ACTIVITY:**

Complementarity with the IDB - The project will be a critical, complementary component to the IDB's other programs such as the LAC-Finesse project and the PRI's lending activities. The Bank has been active in Energy Efficiency and Renewables, and a substantial increase in the amount of involvement in the sector was sought by the Governors in the Eighth Replenishment and by the agreements of the Miami Summit.

It also complements the Corporación Financiera Ambiental (CFA) MIF project by providing capital, grants or technical assistance to projects that would not be eligible for CFA because of their innovative nature or early developmental stage.

**RISKS AND  
ISSUES:**

- 1) **Financial Returns** - operations will be structured to maximize profits in order to demonstrate the financial viability and commercial replication potential of the activities. However, in addition to the risks inherent in investing or lending in developing countries, E&Co-LAC will invest in early-stage projects in a new and innovative industry. As such, the portfolio risks will be high, and the Fund is expected to return only a breakeven level of profitability.
- 2) **Sustainability** - The E&Co-LAC activity is shown to be sustainable based on the continued support of the Sponsor through the year 2000. Thereafter,

profits from ongoing operations will be enough to sustain the initiative at present levels - Rockefeller Foundation has stated its intent in continuing to support the initiative, and the E&Co-LAC Board is also actively seeking other donors. If the additional support from Rockefeller Foundation is not provided, the company would have adequate resources to continue managing the existing portfolio.

- 3) **Inability of Sector to be "mainstreamed"** - The true success of the Project will be the implementation of pilot projects financed by the initiative and the financing of future efforts by mainstream investors and lenders. It is E&Co's goal to "prove the case" for well-structured pilot projects, so that its role will be required only in the first attempts to establish a particular technology or financing mechanism. Thereafter, private markets could reasonably replicate the activity, and the need for E&Co in certain markets and for certain sectors would be gradually eliminated. There is a risk that mainstream financiers could continue to be reluctant to finance projects without the input or support of E&Co. However, based on the growing momentum in renewable energy, and on evidence that private investors are increasingly active in the more traditional areas of the sector (eg. small hydro in Costa Rica) this is viewed as unlikely.