



# Report and Recommendation of the President to the Board of Directors

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Project Number: 48292  
October 2014

## Proposed Equity Investment Asia Environmental Partners II, L.P. (Regional)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
ACP	–	Asia Climate Partners
AEP	–	Asia Environmental Partners, L.P.
AEP II	–	Asia Environmental Partners II, L.P.
ASEAN	–	Association of Southeast Asian Nations
DMC	–	developing member country
ESMS	–	environmental and social management system
IFC	–	International Finance Corporation
IRR	–	internal rate of return
PRC	–	People's Republic of China

## NOTE

In this report, "\$" refers to US dollars.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 48292-001</b>	
<b>Project Name</b>	Equity Investment in AEP II	<b>Department /Division</b>	PSOD/PSIS
<b>Country</b>	REG		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Energy	Energy efficiency and conservation		5.00
	Renewable energy generation - small hydro		5.00
	Renewable energy generation - solar		5.00
	Renewable energy generation - wind		5.00
Water and other urban infrastructure and services	Urban solid waste management		5.00
	Urban water supply		5.00
		<b>Total</b>	<b>30.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Eco-efficiency Natural resources conservation Urban environmental improvement		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Private sector development (PSD)	Promotion of private sector investment	No gender elements (NGE)	✓
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Regional	High
<b>6. Nonsovereign Operation Risk Rating - No Facility Type Defined</b>			
<b>7. Safeguard Categorization</b>		Environment: FI	Involuntary Resettlement: FI
			Indigenous Peoples: FI
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>30.00</b>	
Nonsovereign Investment Fund - Equity Method - LP: Ordinary capital resources		30.00	
<b>B-Loans</b>		<b>0.00</b>	
None		0.00	
<b>Official Cofinancing*</b>		<b>0.00</b>	
None		0.00	
<b>Others<sup>b</sup></b>		<b>0.00</b>	
<b>Total</b>		<b>30.00</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

\* Includes loans funded by Clean Technology Fund and Canadian Climate Fund.

<sup>b</sup> Derived by deducting ADB financing, B Loans and Official Cofinancing from Project Total Cost.



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment of up to \$30,000,000 in Asia Environmental Partners II, L.P. (AEP II), not exceeding 25% of AEP II's total capital commitments and not resulting in the Asian Development Bank (ADB) being the single largest investor in AEP II.<sup>1</sup>

## II. THE FUND

### A. Investment Identification and Description

2. **Description.** AEP II, a Cayman Islands exempted limited partnership, is a closed-ended private equity fund [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)] that will invest in middle-market environmental services and clean energy companies in Asia. The general partner will be Olympus Green Capital Partners II, L.P. (general partner), a Cayman Islands exempted limited partnership. The general partner will have an investment advisory services agreement with Olympus Green Investment Management Limited (investment manager), a Cayman Islands company whose sole shareholder is Olympus Capital Holdings Asia (Olympus Capital), a Cayman Islands company and a registered investment advisor with the United States Securities and Exchange Commission.<sup>2</sup>

3. **Investment identification.** As part of its ongoing market mapping of attractive private equity fund investment opportunities within ADB's developing member countries (DMCs), the Private Sector Operations Department has had an ongoing dialogue with Olympus Capital, a leading pan-Asian middle-market private equity firm, and has followed with interest the successful track record of Asia Environmental Partners, L.P. (AEP), the \$252 million predecessor fund to AEP II launched by Olympus Capital in 2008.

4. In the screening exercise for funds operating in this sector, Olympus Capital ranked very high with clear advantages over its direct competitors in terms of track record, regional experience, access to proprietary deal flow, and investor base. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].

### B. Business Overview and Strategy

5. Strong growth rates in energy demand, combined with a push toward cleaner energy generation, energy efficiency, and resource conservation, are creating a substantial investment need in countries such as the People's Republic of China (PRC) and India. Because public sector funding to meet this need is often insufficient, the private sector will have a crucial role to play in mobilizing additional resources. In 2013, new investments in clean energy within the Asia and Pacific region made up \$121 billion of the \$255 billion invested globally, representing a more than sixfold increase in the investment level for the Asia and Pacific region since 2004.<sup>3</sup> This continued strong growth is in part a result of ambitious policy measures and targets in place across key DMCs, covering renewable energy, as well as energy, water, and other types of resource efficiency. As public awareness and government attention increasingly shift to Asia's

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].

<sup>3</sup> Bloomberg New Energy Finance. 2014. *Clean Energy Investment Q2 2014 Factpack*, 15 July 2014. London.

significant environmental and natural resource challenges, the sectors targeted by AEP II—clean energy and environmental services—can therefore be expected to grow at a multiple of 2–3 times of gross domestic product growth rates, in part also as a result of low historical investment levels.<sup>4</sup>

6. AEP II intends to invest in a balanced portfolio of 7–10 middle-market growth companies, with a focus on the PRC, India, and the Association of Southeast Asian Nations (ASEAN). [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB’s Public Communications Policy (2011)]. Targeted subsectors will include (i) renewable energy projects, services, distribution, and associated equipment; (ii) solid and hazardous waste management; (iii) recycling services; (iv) water management, services, and equipment; (v) energy-efficiency products and services; (vi) pollution control and prevention devices and services; and (vii) consumer products with low-carbon impact. AEP II will focus on established and profitable operations in these subsectors, investing in a combination of asset-based (primarily brownfield) companies and providers of services or equipment. Building on an emerging trend to consolidate Asian private investment in environmental services, AEP II will, where appropriate and akin to the strategy pursued in AEP, build regional platform clusters around a specific growth opportunity.

## **C. Ownership, Management, and Governance**

### **1. Ownership**

7. AEP II will comprise strategic investors, foundations, family offices, and other institutional investors. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB’s Public Communications Policy (2011)].

8. The Cayman Islands has been categorized as largely compliant with internationally agreed tax standards in the latest progress report prepared by the Organisation for Economic Co-operation and Development’s Global Forum on Transparency and Exchange of Information for Tax Purposes.<sup>5</sup> ADB’s review of AEP II does not give ADB cause to believe that it has been established, or is being used, for cross-border tax evasion, money laundering, or terrorism financing in the jurisdictions involved in the investment (footnote 2).

### **2. Management**

9. AEP II is sponsored by Olympus Capital, a leading independent private equity investor in middle-market companies across Asia. Since its founding in 1997, Olympus Capital has invested more than \$1.8 billion of equity capital on behalf of its funds and co-investors in over 40 portfolio companies throughout Asia, including the PRC, India, Japan, the Republic of Korea, and Southeast Asia. It is one of the few regional private equity fund managers to have delivered consistent profits across the key markets in which it invests, through multiple economic cycles. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB’s Public Communications Policy (2011)]. Olympus Capital has one of the longest-standing teams in Asian private equity, comprising 33 investment professionals and

<sup>4</sup> [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB’s Public Communications Policy (2011)].

<sup>5</sup> Organisation for Economic Co-operation and Development. 2013. *Tax Transparency 2013 Report on Progress*. Paris (December). Other jurisdictions categorized as largely compliant include Germany, the Netherlands, the United Kingdom, and the United States.



over 20 senior advisors across offices in Hong Kong, New Delhi, New York, Seoul, Shanghai, Singapore, and Tokyo.

10. The proposed core team for AEP II consists of eight investments professionals across Olympus Capital's offices in Hong Kong, New Delhi, Shanghai, and Singapore. The team will be led by Frederick Long [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)]. The AEP team has an extensive private equity investment track record, combined with deep experience, knowledge, and strong relationships in the clean energy and environmental services sectors, including through eight investments made under AEP. AEP II will also leverage the experience of the broader Olympus Capital team, drawing on a wide range of commercial experience gained from investment, financial, and operational roles, ensuring a broad perspective on investments. Olympus Capital's nine managing directors have worked together at the firm for an average of 14 years (five of them have worked at Olympus Capital since 1998) and bring over 200 years of collective commercial experience, primarily in investing and managing companies in Asia.

11. Olympus Capital takes a highly proactive and hands-on approach to adding strategic and operational value to its investee companies. Through its representation on investee company boards, as well as commitment of substantial team resources—typically including two managing directors per investment—Olympus Capital works closely with the respective management on achieving organic and inorganic growth, developing strategies, recruiting management staff (80 senior hires into portfolio companies to date), deepening financial controls and strengthening internal systems, accessing financing and capital markets, and improving environmental standards.

### **3. Governance Structure**

12. Olympus Capital will follow a typical three-stage investment process developed and refined in its 17-year history: (i) investment screening of each potential portfolio company's operations, products, market opportunity, and valuation against AEP II's mandate and strategy; (ii) deal structuring and due diligence; and (iii) preparation of investment proposals for presentation to AEP II's investment committee.

13. Olympus Capital's distinct competitive advantages in adding value to its portfolio companies are its ability to draw on the experience of its more than 20 senior advisors (six of whom will be dedicated to AEP II). The senior advisors bring extensive operational and sector-specific experience and are instrumental in providing potential deal flow opportunities, as well as strategic support and insight pre- and post-investment.

14. In addition to its investment committee, AEP II will also establish an advisory committee consisting of at least five (and potentially up to 10) individuals selected by the general partner as representatives of the limited partners. ADB will expect to be represented on the advisory committee.<sup>6</sup>

15. Being registered with the United States Securities and Exchange Commission, Olympus Capital is required to fully comply with its provisions on combating corruption, money

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<sup>6</sup> The role of the advisory committee is to represent the interests of AEP II's investors, addressing issues such as conflicts of interest, valuations, and AEP II's progress in achieving its investment objectives. It will not participate in AEP II's investment process or make investment decisions. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].

laundering, and the financing of terrorism. After reviewing Olympus Capital's policies on screening for integrity, money laundering, and financing of terrorism risks, ADB is satisfied that sufficient checks and measures are in place (footnote 2). ADB will require appropriate auditing of the implementation of such policies.

#### **D. Financial Performance**

16. Olympus Capital, through funds under its management, makes private equity investments in its three core sectors: (i) environmental services and clean energy, (ii) agribusiness, and (iii) financial and business services. It has developed a track record of effectively exiting investments at attractive returns, investing more than \$1.8 billion of capital on behalf of its funds and co-investors in more than 40 portfolio companies across Asia within a range of subsectors. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)]. Olympus Capital's first fund with a focus on the clean energy and environmental services sectors, AEP, recently completed its investment period, having made eight investments [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)] into companies involved in subsectors such as renewable energy, water and wastewater treatment, and waste-to-energy.<sup>7</sup> [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)]. Benchmarked against current trading multiples for comparable companies, a number of the AEP investments hold significant upside value potential, based on their projected exit multiples. This is particularly the case for AEP platform investments that have secured market-leading competitive positions, such as [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)] in the Chinese small- to mid-tier hydropower generation market.

### **III. THE PROPOSED ADB ASSISTANCE**

#### **A. The Assistance**

17. ADB will provide an equity investment of up to \$30,000,000 in AEP II, not exceeding 25% of AEP II's total capital commitments and not resulting in ADB being the single largest investor in AEP II.

#### **B. Financial Analysis of Expected Returns and Assumptions**

18. AEP II is expected to achieve similar performance results as targeted by AEP. Overall return expectations for AEP II are anticipated to align with the performance of Olympus Capital's three legacy regional funds.

#### **C. Implementation Arrangements**

19. AEP II has a 10-year term from the final close, with two options to extend for a maximum of 1 year each. Olympus Capital anticipates that the principal exit strategies for AEP II's investments will include both trade sales to strategic buyers, which have accounted for some 70% of Olympus Capital's previous exits, and initial public offerings on Asian stock exchanges.

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<sup>7</sup> As at 30 June 2013. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].

20. ADB will require AEP II to provide it with (i) quarterly unaudited reports and (ii) audited annual reports, including financial statements, a fund overview, and an overview of the portfolio with brief information on each portfolio company's performance and valuation. ADB will review this information and will follow up with the investment manager to clarify when more information is needed. If information received from the investment manager points to issues that could impair the value of ADB's investment, ADB will decide whether to put AEP II on a watch list for more frequent review and closer attention.

21. The general partner will be required to adopt an environmental and social management system (ESMS) satisfactory to ADB, and to report annually on ESMS implementation, particularly relating to safeguards and other social requirements, and development effectiveness indicators. ADB will monitor the receipt and quality of the ESMS reports and offer guidance if the general partner requires clarification on ADB's safeguard requirements.

#### **D. Value Added by ADB Assistance**

22. **Capital mobilization.** ADB's presence and reputation as an investor in Asian developing countries will add value in relation to AEP II's capital mobilization by providing a signaling effect and comfort to other prospective investors, validating the environmental and social governance framework and development impact against a backdrop of strong financial returns. As such, it is a prime example of ADB's "Finance++" concept of leveraging the institution's reputation and capital to mobilize third-party investment activity in DMCs. ADB's investment is expected to help mobilize at least \$90 million in additional commitments from final-close investors, and, based on the track record of AEP, a similar amount from co-investors into AEP II's portfolio companies. Additionally this investment will allow ADB to secure co-investment rights for commercially attractive opportunities sourced by AEP II, and so enhance its own equity deal pipeline.

23. **Policy and regulatory insight.** The environmental services and clean energy markets are frequently underpinned by distinct policy and regulatory frameworks, which act as key value drivers for companies and investments within these sectors. Through its presence as an investor in AEP II, ADB can draw on its extensive regional network and deep understanding of local regulatory frameworks to provide guidance to AEP II on policy issues.

24. **Raising standards.** ADB's presence as a substantial investor in AEP II obligates the general partner to ensure that its investee companies comply with environmental and social safeguard standards, and to report on development indicators. Along with other members of AEP II's advisory committee, ADB's role will be to assist in providing oversight on raising governance and management standards that are essential for companies to demonstrate as they seek additional sources of growth capital from institutional and/or individual investors.

#### **E. Risks**

25. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB's Public Communications Policy (2011)].

26. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB's Public Communications Policy (2011)].

27. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB's Public Communications Policy (2011)].

28. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB's Public Communications Policy (2011)].

29. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB's Public Communications Policy (2011)].

30. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(viii) of ADB's Public Communications Policy (2011)].

#### **IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT**

##### **A. Development Impact, Outcome, and Outputs**

###### **1. Impact**

31. The development impact of the investment will be increased availability of private equity financing for environmental projects across targeted DMCs. Specifically, an additional \$200 million is expected to be invested in environment-related companies through private equity funds by 2029. The promotion of private equity participation in environmental funding will help facilitate balanced and sustainable economic development in the targeted DMCs.

###### **2. Outcome**

32. The outcome of the investment will be sustainable growth and profitability of AEP II's investee companies. AEP II will achieve positive financial returns with meaningful associated environmental and social benefits. The private equity modality is expected to benefit environmental services and clean energy companies in the PRC, India, and ASEAN by (i) creating sustainable long-term value; (ii) driving technological innovation and deployment of low-carbon and resource-efficient solutions, products, and services; and (iii) transferring international best practice governance, environmental, and social standards to portfolio companies. At the conclusion of this investment,<sup>8</sup> AEP II is envisaged to fully exit its investment portfolio at a minimum net IRR of 8%, with 100% of AEP II's investee companies establishing at least one baseline metric to gauge delivery of low-carbon or sustainability services, as applicable (e.g., volume of waste or water treated, megawatt-hours of clean energy generated, megawatt-hours saved through energy-efficiency measures). AEP II is also expected to improve the corporate governance and transparency of its investee companies, wherever needed, and contribute to overall (net) job creation and tax contributions in the countries in which it invests.

###### **3. Outputs**

33. The output is that AEP II is established as planned and its capital invested. ADB's participation will send positive signals to the market, catalyzing investments from additional investors, particularly first-time investors in the target sectors and markets. This will enable AEP II to reach the critical mass needed to create a diversified portfolio of environmental services and clean energy investments. AEP II will be considered successful if it achieves final

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<sup>8</sup> End of AEP II's life (2025), occurring 10 years from the final close (2015), but with two potential 1-year extensions.

close by the third quarter of 2015 and deploys its capital within the proposed 5-year investment period.<sup>9</sup>

## **B. Alignment with ADB Strategy and Operations**

### **1. Consistency with Strategy 2020 and Country Strategy**

34. AEP II's investments will cover several subsectors that seek to improve living conditions and quality of life in part by scaling up private sector development, promote technology transfer, and support sustainable growth models. The investments selected through AEP II will have environmental impact and sustainability as a key value driver. As such, they are aligned with ADB's Midterm Review of Strategy 2020, which seeks to reduce poverty and improve living conditions and quality of life in part by scaling up private sector development and supporting environmentally sustainable models through projects that aim to reduce greenhouse gas emissions and manage climate change impacts.<sup>10</sup>

35. Interventions in all ADB's DMCs would be aligned with the respective country partnership strategies, (i.e., of the PRC, India, Indonesia, the Philippines, Thailand, and Viet Nam), which frequently emphasize climate change mitigation and adaptation, private sector development, clean energy, and sustainable growth as core themes.

### **2. Consistency with Sector Strategy and Relevant ADB Operations**

36. ADB's Energy Policy seeks to facilitate the transition to a low-carbon economy and universal access to energy as an important step toward achieving ADB's vision of a region free of poverty.<sup>11</sup> The objective of the Energy Policy is to help DMCs provide reliable, adequate, and affordable energy for inclusive growth in a socially, economically, and environmentally sustainable way. To achieve these objectives, policy implementation will be based in part on private sector participation to improve energy sector efficiency through competition and an increase in investable resources in DMCs. ADB and other multilateral development organizations have deployed capital into the energy sector through public sector loans and other financing mechanisms for clean energy projects. However, it is widely recognized that the private sector must also join these efforts to build and sustain a low-carbon infrastructure.

### **3. Lessons from Previous Operations**

37. From a portfolio management perspective, AEP II will help ADB increase its exposure to (i) more established fund managers with demonstrable track record and solid base of investors (thereby reducing first-time-fund-manager or boutique risk), (ii) larger and more diversified funds with regional exposure (thereby diluting single-country fund exposure), (iii) more recent vintages (thereby diluting the current concentration of 2010–2012 vintages), and (iv) participations with co-investment rights that will enhance ADB's ability to source quality equity transactions.

<sup>9</sup> AEP II operation outputs will include the establishment of an advisory committee of investors (para. 14) and an ADB-approved ESMS (para. 39).

<sup>10</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

<sup>11</sup> ADB. 2009. *Energy Policy*. Manila.

## V. POLICY COMPLIANCE

### A. Safeguards and Social Dimensions

38. AEP II will be required to comply with the applicable national laws and regulations, as well as ADB's Safeguard Policy Statement (2009). Under the Safeguard Policy Statement, an ESMS has to be established and implemented commensurate with the impacts and risks of its operations and those of its portfolio companies. AEP II and its investee companies will comply with the applicable laws and regulations on environment and health and safety, and AEP II will not invest in any portfolio company that conducts or is involved in any activity named in ADB's prohibited investment activities list.<sup>12</sup> Subprojects will be screened for risks and verified during due diligence. AEP II's ESMS will include provisions requiring AEP II and its portfolio companies to comply with national labor laws and to take measures in relation to internationally recognized core labor standards, in accordance with ADB's Social Protection Strategy.<sup>13</sup> The project is categorized as having no gender elements.

39. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)]. Each of these investment opportunities has its own potential environmental impacts that may arise from construction and operations, including the generation of domestic and hazardous solid waste, air emissions, and wastewater discharges and wastes. Other potential issues include threats to biodiversity, as well as occupational health and safety hazards. While varied, most of these impacts are site-specific and can be avoided or mitigated by adhering to recognized international guidelines, best practices, and design criteria. It is likely that a majority of AEP II's portfolio investments will be classified as category B or C. However, during the course of due diligence of individual investment opportunities, some of these may be classified as category A. Category A projects will be referred to ADB, and Safeguard Policy Statement requirements for category A projects will be followed. Additional requirements may be set for category B portfolio investments if there are significant gaps between Safeguard Policy Statement requirements and host country regulations (such as wind energy projects in India, which are not subject to environmental impact assessment legislation). On social safeguards, the investment in AEP II is classified as FI. While the majority of AEP II's investments are unlikely to involve involuntary resettlement or indigenous people impacts, such impacts are possible in some cases. These will be subject to the screening, due diligence, and remedial action processes set out in the ESMS and AEP II documentation, which include compulsory referral of all investments categorized as A for any impact to an ESMS subcommittee, on which ADB will seek to participate alongside other investors and which will be subject to meeting ADB's Safeguard Policy Statement requirements. In addition, ADB will seek to negotiate with the general partner the right to opt out of, on a case-by-case basis, proposed AEP II investments categorized A or B for involuntary resettlement or indigenous peoples.

40. AEP II has an ESMS in place that complies with IFC guidelines and details the policy, procedures, and workflow that are followed for investments made by AEP II. The ESMS is an integral part of AEP II's investment process and provides guidelines for both the portfolio company and the fund, while also requiring AEP II to submit to IFC an annual environmental and social performance report documenting the continued compliance of its investee companies with IFC's environmental and social performance standards. The ESMS will be amended to reflect ADB's Safeguard Policy Statement requirements and, as part of an overhaul of AEP II's

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<sup>12</sup> ADB's prohibited investment activities list is in Appendix 5 of ADB's Safeguard Policy Statement (2009).

<sup>13</sup> ADB. 2001. *Social Protection Strategy*. Manila.

ESMS platform, a dedicated environmental management specialist with specific responsibilities in this area has been hired.

**B. Anticorruption Policy**

41. Olympus Capital, the general partner, and the investment manager were advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

**C. Investment Limitations**

42. The proposed equity investment is within the medium-term country, industry, group, and single-investment exposure limits for nonsovereign investments.

**D. Assurances**

43. Consistent with the Agreement Establishing the Asian Development Bank,<sup>14</sup> no-objection assurances will be obtained from the governments of the PRC, India and any other member country of ADB where the Fund will invest using ADB funds. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

**VI. RECOMMENDATION**

44. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the equity investment of up to \$30,000,000 in Asia Environmental Partners II, L.P. from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao  
President

30 October 2014

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<sup>14</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

## DESIGN AND MONITORING FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets and/or Indicators with Baselines</b>	<b>Data Sources and/or Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Impact</b> Increased availability of private equity financing for environmental projects across targeted DMCs</p>	<p>An additional \$200 million invested in environment-related companies through private equity funds by 2029</p>	<p>Prequin private equity database</p>	<p><b>Assumption</b> Targeted DMC governments maintain legal and regulatory frameworks that facilitate private equity investments in environmental companies</p> <p><b>Risk</b> Pricing of fossil fuels continues to be subsidized</p>
<p><b>Outcome</b> Sustainable growth and profitability of AEP II's investee companies</p>	<p>Eight of AEP II's investments have been exited by 2027, including through stock exchange listings or trade sale divestments</p> <p>A minimum nominal internal rate of return of 8% for AEP II by 2027</p> <p>Achievement by investee companies of agreed sustainability metrics</p> <p>At least a 10% net increase in employment in AEP II investee companies</p> <p>100% of AEP II investee companies achieve a real increase in corporate taxes paid from 2019 to 2025</p>	<p>AEP II's quarterly and annual reports</p> <p>Development Effectiveness Monitoring Report</p>	<p><b>Assumptions</b> Adequate scope exists for private equity investment in environmental finance in the targeted DMCs</p> <p>Continued commitment of AEP II investee companies to adopt and maintain international standards for financial reporting and corporate governance</p> <p>No adverse macro changes that will have a negative impact on environmental finance sector development</p>





<b>Activities with Milestones</b>	<b>Inputs</b>
<p><b>1. Operational arrangements</b></p> <p>1.1 Legal documentation (e.g. limited partnership agreement, subscription agreement, and fund management agreement) is executed as appropriate by Q4 2014.</p> <p>1.2 Incorporation, registration, and related activities needed to establish AEP II have been fully completed.</p> <p><b>2. Financing arrangements</b></p> <p>2.1 [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].</p> <p>2.2 ADB invests up to \$30 million by Q4 2014.</p> <p>2.3 [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)]. [This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].</p> <p><b>3. AEP II activities</b></p> <p>3.1 AEP II promotes itself in the market, and attracts attention from companies on an ongoing basis (approximately 2015–2020).</p> <p>3.2 AEP II evaluates these opportunities and selects companies for investment as appropriate (approximately 2015–2020).</p> <p>3.3 AEP II adds value to investments over time (approximately 2015–2027).</p> <p>3.4 AEP II seeks appropriate exit opportunities, such as strategic buyouts or preparing companies for initial public offerings, and achieves exits from investments (approximately 2020–2027).</p>	<p>[This information has been removed as it falls within exceptions to disclosure specified in paragraph 97(v) of ADB's Public Communications Policy (2011)].</p> <p>ADB: up to \$30 million</p>

ADB = Asian Development Bank; AEP II = Asia Environmental Partners II, L.P.; DMC = developing member country; Q = quarter.

Source: Asian Development Bank.

## **LIST OF LINKED DOCUMENTS**

[This information has been removed as it falls within exceptions to disclosure specified in paragraphs 97(v) and 97(viii) of ADB's Public Communications Policy (2011)].