

Environmental and Social Data Sheet

Overview

Project Name: *MGM Sustainable Energy Fund II*
Project Number: *2017-0696*
Country: *Brazil, Colombia, Mexico, Honduras, Peru, South East Asia*
Project Description: *Equity fund focused on energy efficiency and small size renewable energy projects in Latin America, the Caribbean and South East Asia.*

EIA required: *some investments may require EIA*

Project included in Carbon Footprint Exercise¹: *no*

Environmental and Social Assessment

Environmental Assessment

This operation intends to bring environmental benefits by supporting renewable energy ("RE") and energy efficiency ("EE") in the Latin America and Caribbean, and South East Asia regions

The MGM Sustainable Energy Fund II (MSEFII, the Fund) is a second-time fund for the management team, that already gained experience in managing a dedicated RE and EE fund. The Fund team is composed of experienced professionals with a proven track record in originating, developing, financing and constructing sustainable energy infrastructure in the Latin America and Caribbean region. The fund manager is already known by the Bank's services from the predecessor fund. EIB technical contribution in the first fund included targeted inputs in the development of Environmental and Social Management System (ESMS).

This fund replicates the strategy of the first fund with a wider geographical and technological focus, especially in the hydro-power sector, which was not a core focus of the predecessor fund. The fund targets predominantly greenfield RE (solar PV, small hydro, biomass and waste-to-energy) and EE projects (mainly solar distributed generation, street lighting, air conditioning and industrial EE projects). RE projects will be mainly early-stage development projects, which have partly completed their environmental authorisation process.

The mitigation of key risks and impacts derive from the Fund's capacity to identify and manage the potential environmental and social risk and impacts associated with projects in the pipeline, and to maintain and operate an appropriate environmental and social management system. Risks and impacts may include but are not limited to: (i) environmental impacts on air emissions, waste management, (ii) Occupational health and safety (iii) community and social impacts such as land acquisition, economic and/or physical displacement, health, safety and security; (iv) biodiversity (v) stakeholder engagement.

The fund's team of professionals (located in USA and Colombia) will be complemented by local reputable consultants for the technical, legal, financial, and environmental and social due diligence. The Fund has already designated an environmental responsible, who will oversee all the of environmental and social

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

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activities aspects. The designated E&S responsible already has experience in carrying out such functions in the predecessor Fund. Additionally, the Fund has developed an overall Environmental and Social Management System (ESMS). The ESMS outlines the set of E&S management processes and procedures, including the modalities for the establishment of an appropriate grievance mechanism at Fund level, which would allow the Fund to adequately identify, appraise and address the E&S risks and impacts across its portfolio and for each portfolio project. The ESMS, developed for Fund I, will need to be updated and enhanced to ensure that the identification, management and monitoring of specific E&S risks of medium risk projects (and especially hydro-power projects) is properly taken into account. Staff with overall responsibility for the implementation of the ESMS supporting the portfolio team on a day-to-day basis, and ensuring continued alignment with investors regarding E&S requirements, as well as ensuring, at project level, compliance with the approved ESMS, will have to be clearly designated. The E&S standards which will guide the risk assessment and mitigation across the Fund's pipeline include the IFC Performance Standards 2012.

In addition, the Fund will be required to ensure compliance of the investments with the EIB Excluded and Restricted Lists of activities, the EIB E&S Standards 2013, E&S national laws and regulations as well as its requirements under the ESMS.

Conclusions and Recommendations

In order to meet EIB's requirements, the Fund will be required to enhance its ESMS. In particular the Fund will ensure it has the required standards and procedures for identifying, managing and monitoring the specific E&S risks and impacts linked to medium risk projects, specifically hydro-power projects. The updated ESMS document will be submitted to the Bank, at the latest six months after first close, for review and comments.

To ensure adequate ESMS implementation, the EIB will review the first three environmental and social due diligences undertaken by the Fund for hydro-power projects, after commitment, prior to the Fund's investment.

The Fund will hire on retainer an E&S specialist to review E&S aspects related to the Fund's medium risk investments. In addition, to raise awareness on E&S risks and impacts associated with large projects and hydropower plants, the Fund will develop and implement an E&S training plan for the investment team, which will be reviewed by the E&S specialist. The CV of the selected specialist and trainer will be sent to the Bank for no objection.

The Fund will, on an annual basis, prepare and submit to the Bank an E&S performance report.

For Investments subject to an environmental impact assessment (EIA) as defined by national legislation or for Investments identified in Annex I of Directive 2014/52/EU amending the Directive 2011/92/EU (if they were located in the EU), the Manager shall (i) ensure that an Environmental and Social Impact Assessment (ESIA) is carried out and that public consultation is undertaken in accordance with national legislation and the EIB E&S standards, (ii) collect and publish the ESIA Study on the Manager's/Investee Company's website, or if otherwise agreed with EIB, send the ESIA to the EIB for publication in compliance with the EIB's Transparency Policy, as amended from time to time and published on EIB's website (www.eib.org), (iii) retain on file a copy of the ESIA for a period of not less than six (6) years, (iv) upon request, provide a digital copy to the EIB, and (v) upon request, confirm to the EIB that the Investment incorporates relevant mitigating measures recommended as a result of the EIA.

With these conditions in place, the Fund is considered acceptable for the Bank in environmental and social terms.