

## Tapping renewable energy's investment potential

Friday, November 18, 2011

### John Paul Moscarella

Senior managing director and principal  
Emerging Energy & Environment

*Latin America and the Caribbean's renewables market has matured in recent years, and it is no longer a surprise to see countries holding auctions and supply calls to diversify their generation parks and secure production from these sources.*

*While some investors are still wary of the return potential of these energies, others have stepped into this niche market.*

*To learn more about investing in these alternative energy sources, BNamericas spoke to John Paul Moscarella, senior managing director and principal of investment firm Emerging Energy & Environment, which manages the CleanTech Fund and has a second in development.*

**BNamericas:** How has the market for renewable and sustainable energy funds evolved over the last 5-10 years?

**Moscarella:** The first environmental and renewable energy funds started back in the 1990s. They were quite small, one for US\$10mn - Empresas Ambientales de Centroamérica - and another for US\$15mn. Starting in 2001, larger funds started to appear, including our first fund, The CleanTech Fund for US\$25mn, and today there are various funds of US\$50mn or more.

**BNamericas:** Is there still room to grow, or has there been a slowdown?

**Moscarella:** It has been difficult to raise capital in the last three years, principally due to the financial crisis, but not to sector-specific issues, on the contrary, renewable energy and the environment are important.

**BNamericas:** What is the current state of renewable energy in the region?

**Moscarella:** Almost all the countries in the region have regulatory frameworks that favor renewable energies. It's a process that began some 10-15 years ago, starting in Central America, where Costa Rica was the first with law 7200.

But Central America is small and the most important advance has been in the last few years, starting in 2003 with Proinfra 1 in Brazil that detonated a renewable energy market of various thousands of MW. Since 2009, there have been three auctions where 6,000MW of wind were awarded in long-term PPAs. The big question is how many of those will be carried out, but if we consider a factor of 50%, we still have 3,000MW.

What has happened is that other countries have adopted Brazil's auction model, the most recent case being Peru, where three auctions have already been held under the

renewable energy resources law of 2009. Obviously Peru is much smaller, but we're talking 400-500MW of small hydroelectric plants, some 100-200MW wind and what is most interesting for me, 80-100MW solar.

Uruguay is another interesting market where auctions have been held. But we all complain the prices are very low which for investors like us represents a low return.

**BNamericas:** How do you identify projects for possible investment?

**Moscarella:** All our team has more than 20 years in the region and has been in this for the same number of years. We have a series of contacts and networks, with developers, consultants, brokers, financial advisors. This is how projects come to us.

**BNamericas:** Could you walk us through a little on how you come to a final decision?

**Moscarella:** One way is using the famous top-down analysis: how is the market, what is the long-term outlook, and who are the players. It is a very detailed market analysis. The other way is the classic bottom-up analysis which looks at financial projections, project management - do they have experience or are they new - and expected return.

As you know, recently various thousands of MW of wind power have been installed. What is happening after the start of these projects is that wind factors are not what they were projected. These projections have to be studied carefully and we have to carry out technological due diligence, above all with renewable energy resources when the principal risk is the resource.

**BNamericas:** What about political risk, given the region's ever-changing political landscape?

**Moscarella:** It is very important. We like stable markets with long-term growth projections. That is most important. The political stability factor influences our decisions, nevertheless, it's not the only one. You can carry out projects in markets that could be seen as not having good political frameworks, but generally we like stable economies with established democracies. We do worry about changes in the rules of the game.

**BNamericas:** What are some of the questions/doubts raised by potential investors when raising capital for these funds?

**Moscarella:** There's a big difference between international investors that do not know the region and those that already have been here. Those familiarized with the region and are here don't have doubts about the economies and political framework. When you're promoting the region that is the first question asked. At least it is going well for Latin America these days. Growth is good. The 2008-09 crisis did not affect the region that much as others and now the European crisis also is not affecting Latin America like other parts.

**BNamericas:** The company's first fund, CleanTech Fund: where and what projects did investment go to?

**Moscarella:** The fund invested in companies or projects: three small hydroelectric plants, a natural gas transport project, a compressed natural gas project, a hybrid electric vehicle, a sanitary landfill biogas project and we had a project that was going to be bioethanol and now will be for starch and food products. Our footprint is Mexico, Brazil and Peru.

**BNamericas:** How has this fund performed?

**Moscarella:** It has been positive. We have sold one of the seven and partially sold another. When the fund finalizes around 2014 return will be positive for our investors.

**BNamericas:** Could you comment about the status of the second fund: CleanTech

## Latin America II?

**Moscarella:** The European Investment Bank and IFC have pledged their participation in the second fund, which will focus much more on renewable energy and also include Chile, Colombia and possibly Central America. We are looking for projects and are in the process of changing the fund's name to Emerging Energy Latin America Fund.

**BNamericas:** How much do you want to raise for the second fund?

**Moscarella:** The objective capital is US\$150mn but could reach US\$250mn.

**BNamericas:** What distinguishes Emerging Energy & Environment's funds from others?

**Moscarella:** Two factors. One is that we are in the region. Others are not. Second, we also have been on the other side of the table. We have many years of experience. I began a company called Econergy and sold it. We also have international contacts; a local and international combination.

## By David Casallas

Reporter  
BNamericas



Print this article

BNamericas Customer Service Center

[info@BNamericas.com](mailto:info@BNamericas.com)

Tel: +56 (2) 232 0302

Fax: +56 (2) 232 9376

Voice/Fax: +1 (305) 513 5782 (USA)