

Funding Climate technology projects in Central America

by Rene Churquina

The adoption of Climate technologies such as Cleantech and Greentech in developing Central American countries is key in the race to a fossil-free economy. A post-pandemic recovery in developing economies is accompanied by a demand for more fossil fueled energy and natural resources. However, small countries like El Salvador, Guatemala, Honduras, Nicaragua Dominican Republic, and Panama face financial constraints when it comes to adopting Climate Technologies.

Despite a growing pool of investors interested in Climate technology projects in developing countries, most investments remain concentrated in developed countries. In the pursuit of Net Zero goals and fulfilling the Paris Agreement, this trend is creating an imbalance.

The developed world is also working hard to accelerate the recovery, but they only have the option of going back to a fossil-based economy without incentives to transition to sustainable development. We cannot go back to the same level of global CO2 emissions we had before the pandemic. Since clean technologies are becoming more affordable in many sectors, there is an opportunity to change the pattern.

Examining adoption barriers

According to the UNFCCC, the most significant challenges to financing Climate technology projects in developing countries are finding low interest loans, obtaining public investment guarantees, and obtaining credit ratings. It is difficult for financial markets to respond to this uncertainty, but with the right strategies and expertise, they can overcome them.

There are barriers to the deployment of clean technologies depending on their characteristics. Stages of commercialization, investors available, and market conditions. Testing and demonstration of clean technologies are necessary, as well as adaptation to the new market. Until these technologies mature and can compete with similar fossil-based technologies, public support is necessary

The role of public entities in facilitating access to early-stage risk capital plays an important role. To address the financing issues, it is essential to have a deep understanding of the specific risks, capacity constraints, and finance gaps that prevent investments.

A few takeaways for companies exporting environmental solutions

As far as exports of Climate technologies are concerned. Your company will be waiting too long if it waits for the perfect storm. Blended financial instruments that can be structured for exporting, financing, and sharing risk between stakeholders are not a silver bullet, but with a few adaptations, successful financial models and best practices can be replicated and scaled up, including a wider range of risk mitigation strategies that international aggregators and climate experts can evaluate.

The following are some recommendations for successful environmental technologies exports:

- We recommend getting good advice from international trade experts and utilizing trusted financing mechanisms like Svensk Exportkredit, Nefco and Exportkreditnämnden EKN.
- Connect with large Swedish companies that have already done business in challenging regions and developing countries.
- If these are not complex or comprehensive systemic solutions, you can also use trusted industry-leading sales partners in the country as representatives.
- Let people with the right expertise who live in Sweden and have excellent knowledge of business culture, languages, and environments in the countries you want to enter be your champions.
- Find ways to offer gap financing to your clients and consider other business models as well. Consider different models of financial leasing in collaboration with local banks and have an open discussion with the customer to find a financial model that works for both parties and minimizes the delivery time.

A set of recommendations for the financial stakeholders

As part of Cleantech adoption in developing countries, the financial stakeholders are equally important. Public finance is already on the move and there will be initiatives coming after COP 26 to fund Climate technology funds for projects in developing and underdeveloped countries facing climate change mitigation and adaptation challenges.

- Climate technology projects should be financed over the long term if these factors are considered:
- Climate finance must be scaled up to meet the goals of the Paris Agreement by Multilateral Development Banks.
- Develop institutional capacity for evaluating innovative Climate technology projects for long-term funding by mobilizing and working with banks in developing countries.

- Innovative business models and blended financial instruments can be used to share risk for financing gaps, especially in adaptation projects.
- Simplify processes and frameworks for financing Cleantech and Climate Technology projects through improved collaboration with public sector stakeholders.

Takeaways for political and public sector stakeholders

The public and adopters are recommended to follow these recommendations:

- As a political stakeholder in a developing country, you should focus on creating incentives and legal frameworks to facilitate adoption of climate technologies, here are some things to consider:
- Implement more ambitious roadmaps to meet the Sustainable Development Goals while creating new jobs.
- Partner with universities and research organizations to develop a transition roadmap and manage projects. Delegate to the environmental experts, especially if you are a political stakeholder.
- Listen to climate champions from civil society using NDC mechanisms to provide input on climate technology implementation plans.
- Avoid politicization and polarization in key areas to facilitate adoption among beneficiaries, especially when it comes to climate change adaptation.
- Find funding opportunities for climate adaptation and mitigation through grants and blended finance. The Green Climate Fund is already funding projects in developing countries.

Conclusions and final remarks

The global marketplace can be difficult to navigate for a Climate technology and environmental services companies, especially when exporting for the first time from Sweden. SWECA has the experts in specific markets in the Central American region that can provide advice regarding business opportunities and possible partners in to do business within the region.

When it comes to sourcing Climate Technologies to solve environmental problems in Central America, Asia, Africa, and India. Sweden has high-ranked environmental companies that can assist in technology screening pre-feasibility studies or just find specific solutions providers.

Many Climate technology projects will require gap financing only during the startup phase and then become self-sustaining and bankable. Investors and Climate technology companies must be more patient and find these opportunities.

The Central America offers great opportunities to fund climate adaptation and mitigation projects. The journey to a greener, cleaner world has just begun.

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