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# Private Sector Finance for Climate and Biodiversity Conservation in Latin America and the Caribbean

## 1. Background

Latin American and Caribbean countries need to mobilize and access available public and private finance to support the implementation of their climate and biodiversity commitments, yet it is often difficult to access financial support for those commitments. For many developing countries, barriers to accessing climate finance are related to limited resources or capacity to address the often complex and specific requirements of the funds, substantial burocracy, and the high costs associated with project preparation and development. Access to private sector finance can be further complicated by the different approaches, requirements and operational modalities deployed by this sector. Having a better understanding of existing private sector flows and investments for the Latin America and Caribbean region is a crucial step towards defining the appropriate approach to the provision of technical assistance to facilitate access to private sector investments.

The EUROCLIMA Programme and NDC Partnership are two initiatives with similar mandates; seeking to accelerate climate and sustainable development action through a greater alignment, coordination and access to resources.

In this regard, both initiatives are joining efforts to advance a private sector mapping exercise and take subsequent steps to foster understanding of the opportunities and challenges to engage with private sector stakeholders.

Private sector investments are essential to advance towards the achievement of climate and biodiversity goals established under international agreements such as the Paris Agreement and the Kunming-Montreal Global Framework for Biodiversity. Both in Latin America and the Caribbean (LAC) and globally, the private sector plays a crucial role in resource mobilization, providing financing for adaptation, mitigation and biodiversity conservation projects. To contribute to the identification and definition of private sector funding sources and financial mechanisms available for the region, the Euroclima program together with the NDC Partnership, through GIZ, has commissioned a study to SURECO & Partners to map such sources of finance in LAC. This document presents the main results of the aforementioned study, with the purpose of making available the findings while providing recommendations for deepen this topic.

The scope of this study focuses on providing an overview of the sources of private sector financing for climate change and biodiversity conservation in Latin America and the Caribbean (LAC); however, it is important to note that this report provides an overview and few examples of the main types of entities that provide private financing.

The information is based primarily on publicly available secondary information, which implies that there may be other sources of financing that have not been identified or included in this analysis, as well as some sources that need to be verified and adjusted.

## 2. Overview of sources of private sector financing in the Latin American and Caribbean region with a focus on climate change and biodiversity conservation.

### Reference framework

The approach to map private sector financing in the region was to identify stakeholders, categorize the types of financial instruments deployed, in order to assess how private investments are directed to climate initiatives in the specific sectors analyzed.

Next, some definitions of the identified private sector actors


| Type of actors | Definition |
|---|---|
| Multilateral/Regional Climate Funds | Development finance institutions' (DFIs') own resources, excluding external resources and certain government contributions, to avoid double counting. |
| Multilateral DFIs | Development financial institutions authorized by various countries |
| National DFIs | Government-owned institutions that focus on domestic finance and have a distinctive development mandate. |
| Commercial IFs | Providers of private debt capital (and occasionally other instruments), including commercial and investment banks. |
| Pension funds | Investment fund that pools contributions from employers and employees to invest in stocks, bonds and real estate, with the goal of securing retirement benefits for participants. |
| Impact/carbon funds | Investment vehicles converted into companies, organizations and funds with the intention of generating a measurable and beneficial social or environmental impact along with a financial return. |
| Insurance companies | Life and non-life insurance policy premiums, with investment restrictions imposed by national and international financial regulators. |
| Asset management companies | Institutions that oversee and invest the funds of asset owners including individuals, companies, and governments. |

| Type of actors | Definition |
|---|---|
| Microfinance institutions | Microfinance provides small-scale financial services to underserved individuals, entrepreneurs and small businesses without access to traditional sources. |
| Hedge funds | A partnership of private investors that uses a variety of strategies, including leverage and trading of non-traditional assets, to achieve high returns, making it a risky alternative investment. |
| Capital providers for private equity, angel investor (PE), and venture capital (VC) | Non-listed companies at different levels of maturity, while venture capital (VC) funds early-stage companies to scale innovative technologies and business models. |
| Capital providers for mixed financing | Combination of commercial and concessional capital allowing diverse to invest together and demonstrate sustainable models. |
| Conservation Trust Funds | Organizations created to address global or regional environmental challenges. |
| Philanthropic capital (foundations, NGOs) | This capital comprises charitable contributions with flexible use, supporting early-stage technologies through a combination of grants and loans. |
| Corporations | Corporations, which may have activities in the energy sector, other sectors or both (for example, a large water utility that installs hydroelectric power generation and water treatment facilities). |
| Project developer | Actors who conceive, plan and initiate projects by identifying opportunities, setting objectives and creating project plans as innovators. |
| Framework - Norms Stabilizer | Environmental frameworks are defined by special institutions, usually non-profit. Standards are usually set by governments and international institutes with legal authority |
| Incubators and accelerators | **Incubators:** Support early stage start-ups in developing ideas to become profitable by providing a creative environment and access to industry expertise.<br>**Accelerators:** Help companies grow through mentoring, resources and networking. |
| Data provider | Institutions or initiatives providing information on funding sources |
| Others | Other actors not previously addressed |

*The study* presents the general definitions of the different stakeholders and institutions of the private sector, which also include other types of actors such as project developers, asset managers, incubators and accelerators, all with different but complementary roles that play within the financial ecosystem, and which reflect the dynamics of climate finance and its evolution. The same report presents the categorization of financial instruments used, as each instrument category has a unique role in the financial landscape supporting the various types of activities and projects according to their specific structures and objectives. This allows aligning their financing needs with the most appropriate sources of capital.

The study conducted to characterize sources of climate and biodiversity finance in the LAC region focused on five sectors: clean energy, transportation, water, agriculture, forestry and other land uses (AFOLU), biodiversity and Nature-based Solutions (NbS).

**Clean energies**

**Transport**

**Biodiversity and Nature based Solutions**

**Agriculture, Forestry and Other Land Use (AFOLU)**

**Water**

## The sources of private financing were grouped by **types of entities** and by **types of financial instruments** they offer.

**Identification of private sector actors/entities:**

These refer to legal entities whose activities generate economic income from the generation of products or services oriented to a national or international target public. Some of the roles of these actors identified in the flow of financing are

| | |
|---|---|
| **Sources of private Finance** | The private sector provides the capital for public or private actors to implement mitigation, adaptation and/or conservation projects, either with its own funds or those of other investors. |
| **Entities that access climate finance** | The private sector accesses or receives funding for the implementation of projects that contribute to climate and biodiversity objectives. |
| **Entities that facilitate access to climate finance** | The private sector intervenes as an independent third party in the flow of financing, either by enabling the financing for the transaction to take place or by providing technical assistance. |

## Sources of financing

- Multilateral Climate Funds
- Multilateral Development Finance Institutions (DFIs)
- National Development Finance Institutions (DFIs)
- Commercial Financial Institutions
- Pension Funds
- Impact Funds / Carbon
- Insurance companies
- Asset Management Companies
- Microfinance Institutions
- Hedge Funds
- Private Equity, Private Equity (PE) and Venture Capital (VC) Providers
- Providers of Capital for Combined Financing
- Environmental Funds
- Philanthropic Capital
- Corporations

**Financial instruments**: These describe the methods and structures used to analyze financing, as shown below:

**Most representative financial instruments:**

- Project Level Debt- Project Finance
- Blended Finance
- Grants
- Capital Markets (green, blue, thematic bonds)-
- Guarantees
- Project funding

**Mapping of existing studies on private sector flows:**

The process of gathering and analyzing relevant information to understand the landscape of climate and biodiversity finance in LAC was carried out by compiling and systematizing a series of analyzed studies, which were classified according to their relevance and depth in terms of private sector finance.

## Methodology

### Identification and collection of information sources

Select and name studies and evaluations that focus directly on private sector financing, segmenting the types of studies and prioritising them according to their level of relevance.

### Evaluation of the Information Collected

Provide a brief but comprehensive assessment of the information gathered, highlighting the implications of private finance in the climate and biodiversity sectors.

### Establishment of the Conceptual Framework

Develop a conceptual framework to identify and classify the various types of private sector financing, recognise the financial instruments used and determine the key actors involved in these investment flows.

## Steps taken:

1. Gathering and segmentation of information sources
2. Relevance assessment
3. Categorisation of private sector actors
4. Categorisation of types of financial instruments
5. Categorisation of financial instruments; and sectors and areas of Impact

One of the main findings of this survey process is the paucity of research focused exclusively on private climate and biodiversity finance in the Latin American region.

On this basis, the private finance landscape in the region is analysed in terms of actors, sources and instruments of climate and biodiversity finance.

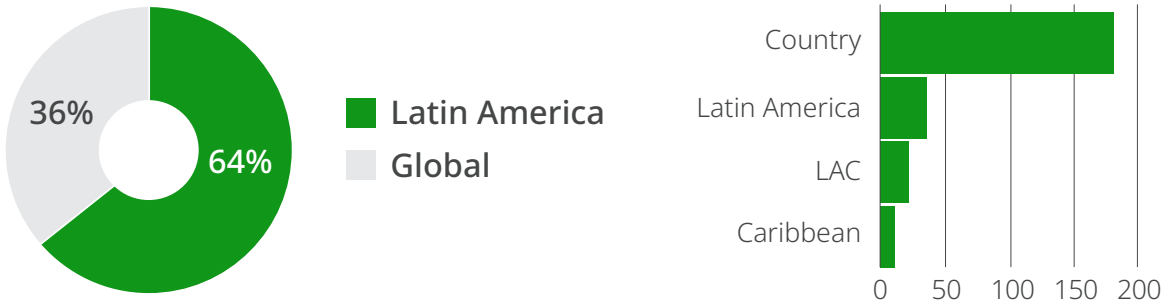
### Main findings on private sector financial flows in LAC

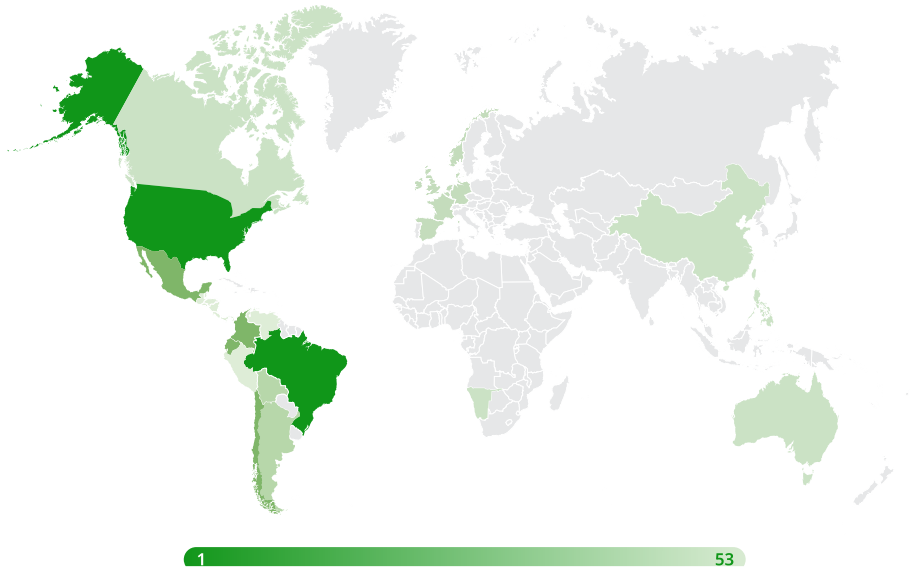
*The report´s* main findings, which was conducted based on secondary information and an extensive literature review, mapped a total of 384 entities and identified 354 that provide climate finance (excluding multilateral climate funds and registered public entities). This universe of financing entities has the following characteristics:

## Characterisation of funding sources and financial instruments

**The present study identified:**

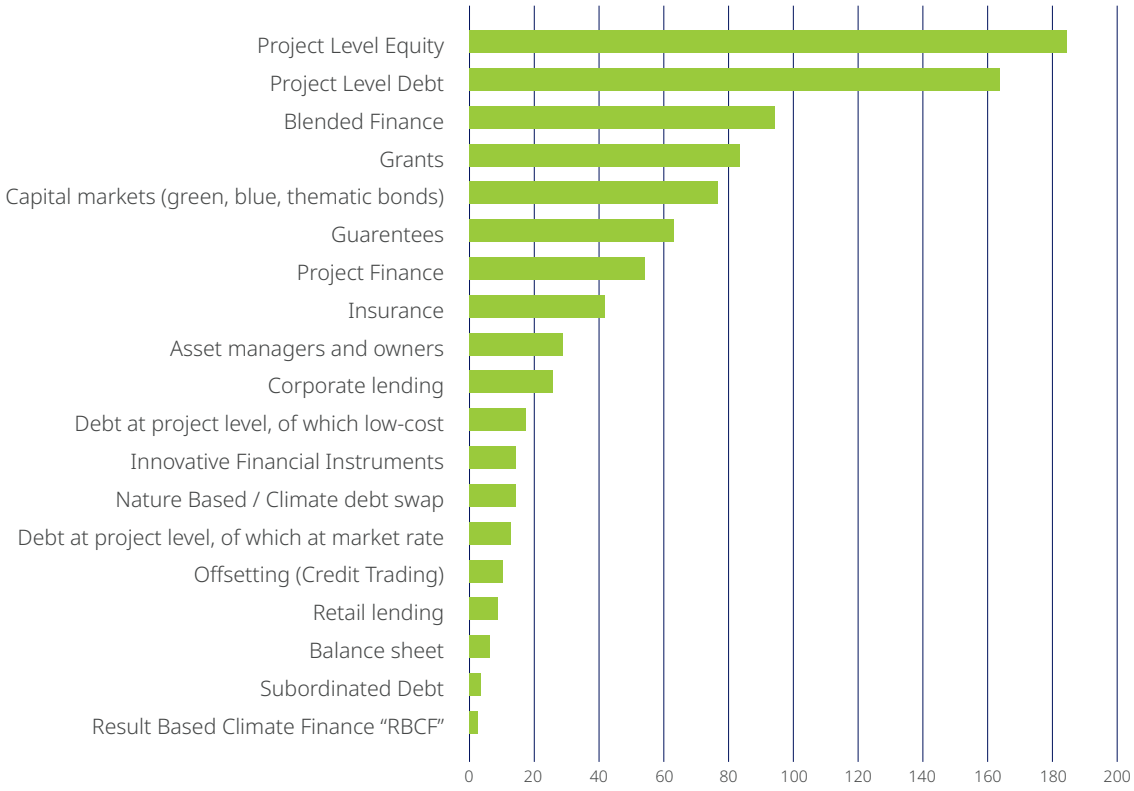
**354** Entities that provide and mobilise private sector finance for climate change and biodiversity from and to Latin America and the Caribbean with global, regional and local impact.




**Notes:** The database used for this graph records a total of 384 entities..
However, the graph represents only 354 of these entities, as Multilateral Climate Funds and registered public entities are excluded.
The graph was constructed with reference to the location of the headquarters office of each entity..

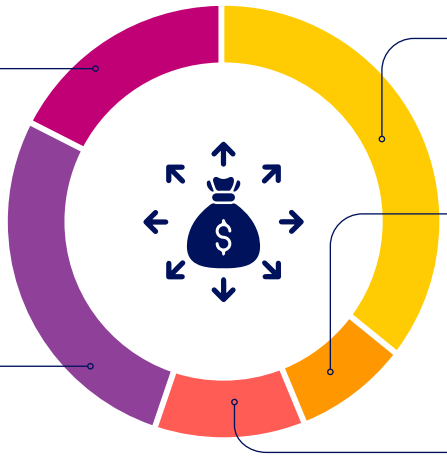
**Figure 1:** Types of financial instruments used by the mapped entities




**Source:** Sureco and Partners (2024)

**Note.** The x-axis represents the number of times each type of financial instrument has been used by the mapped entities. Debt financial instruments at the project level include the low-cost and market rate categories.

**Figure 2:** Funding sources by sector



**17%**
of entities invest in the **Biodiversity and NbS sector**

**28%**
of entities invest in the **AFOLU sector**

**36%**
of entities invest in the **clean energy sector**

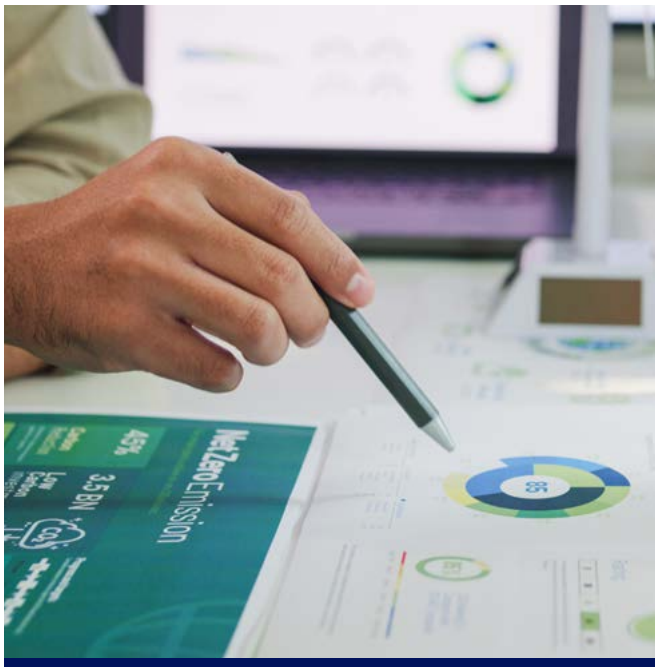
**8%**
of entities invest in the **transport sector**

**11%**
of entities invest in the **water sector**

**Source:** Sureco and Partners (2024)

The analysis of financial flows provides a comprehensive view of how private finance is mobilized, allowing a better understanding of how different types of stakeholders mobilize various financial instruments to finance projects in specific sectors related to climate change in Latin America and the Caribbean, highlighting the great complexity between actors and instruments, with important interconnections and the use of various financial strategies to mobilize resources for climate projects. This underlines the need for collaboration and diversified strategies to mobilize climate finance effectively.

There is also a growing development of emerging instruments, such as Blended Finance and Thematic Bonds, although traditional instruments continue to be decisive in climate finance. This new supply of financial products is accompanied by a diversification of sources of finance, from private capital to institutional actors and philanthropy, highlighting the need to promote new financing strategies to maximize the impact and efficiency of resources allocated to climate action.




*In the study*, three case studies on financial flows, entities and private sector financial instruments are detailed for the countries below.

Ecuador Colombia

Jamaica

## 3. Challenges and opportunities

The following aspects are some of the challenges identified:

In relation to methodological aspects and information gathering: the challenges of access, evaluation and systematization of sources of finance, actors and financing flows, the challenges include:

- The limited availability of information, inconsistency in the presentation of data, lack of details on investment criteria, limited information on beneficiaries, lack of support to identify the climate rationale to classify climate change investments according to their contribution to mitigation, adaptation or both
- A significant part of the studies reviewed are global and not regional in nature, or provide aggregated information that limits the possibilities of identifying the actors responsible for climate finance in the private sector in Latin America.
- The linguistic distribution of the compiled studies on private sector financing in the area of biodiversity and climate reveals a predominance of English, with over 60 of the analyzed documents presented in this language. It is crucial to recognize the need to integrate and translate studies into Spanish to improve accessibility and strengthen their relevance in Latin America and the Caribbean region.
- Not enough literature has been found regarding the impacts and effectiveness of this type of financing to address climate problems in the region, nor specific evaluations on the effectiveness of these funds compared to other forms of financing, such as international aid or public investment.

In relation to evaluation aspects: corresponds to the results observed, as well as to the labeling of climate change and biodiversity finance. The following challenges are identified.

- Availability of inadequate financing.

  The sources of financing from the private sector depend on a limited number of investors and financial instruments, and the instrument that is repeated in all cases is project loans. There is a difficulty in identifying sectors, actors and financial instruments related to climate change adaptation. The taxonomy for private investment in adaptation is not clear among actors in the financial sector, which makes it difficult to align climate finance flows with national climate policies. This can limit the amount of capital available and the financial flexibility needed to carry out these types of projects.

- Cost of financing.

  The cost of financing in Latin America is generally high, which represents a significant barrier to investment in any of the sectors analyzed in this study. High interest rates and risk premiums imposed by banks and other financial institutions reflect the perceived high risk associated with the region and with climate change and biodiversity projects. This high cost of financing translates into higher capital costs for projects, which in turn reduces their profitability and competitiveness vis-à-vis investments in other sectors, or even in other regions around the world. In addition, the macroeconomic environment and political volatility in some countries of the region also contribute to higher financing costs.

## 4. Next Steps

While considerable efforts has been made to identify and map a variety of relevant financial actors and mechanisms in the region, there may be other sources of finance that have not been identified or included in this analysis. Due to the dynamic and nature of climate finance and investments in the region, as well as the scale of private finance, which presents certain challenges in terms of the specificity of the countries receiving investments, it is important to continue to deepen this effort to better understand the ecosystem of actors/entities operating in the region, and further disaggregate their role and impact in key sectors of the climate agenda as well as in the diversity of countries that comprise the region.

This information is relevant to encourage public-private partnerships in financing climate solutions and biodiversity conservation.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This publication was produced on the basis of a study carried out by Sureco & Partners and is financially supported by the European Union through the Euroclima programme implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The contents of this publication are the sole responsibility of the authors and can in no way be taken to reflect the views of the European Union.

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