



## **Cleantech in Latin America: a booming investment alternative**

Every year in September, the European Energy Venture Fair gathers in Zurich around 100 European private equity and venture capital funds, focused exclusively on cleantech and renewable energy (similar events happen in the US and in the Asia). Despite the uncertainties at the financial markets, this event is proof that a focus on this sector continues to be promising. In Latin America, there are still very few funds having an exclusive investment focus on renewable energy. Over the past years, some funds have been created in view of the opportunities in ethanol and biodiesel, and some general funds have made prominent investments in these areas. However, this article deals with investment opportunities in other renewables, as the biofuel subsector has proven to be volatile, depending on commodities price developments and on political uncertainties based on the “food versus fuel” debate.

But there are plenty of attractive investment opportunities in the region in other cleantech areas more geared towards power than fuels: wind, geothermal, solar, mini-hydro and biomass (waste-to-energy) are currently expanding rapidly in Latin America; and energy efficiency debates start to enter the area. If one believes only to a certain extent the fact that oil and gas are peaking in a foreseeable future, then one knows that governments and industries in this continent (as elsewhere in the world) have to prepare for including renewable energy sources more prominently in each nations’ energy mix.

There exist a mere handful of funds exclusively focused on these areas (such as the Ecos Sustainable Equity Fund; or E+Co Capital), but an increasing number of general funds start looking at these sectors actively. In addition, European and US funds are looking for co-investment opportunities and start partnering up with alike Latin American funds, as they are not yet too familiar with this region, which is in itself increasingly attractive and less hit by the financial turmoil than other continents.

One of the factors that brought cleantech to boom in Europe and the US were governmental incentives (including some US states even during the Bush administration); another was the upsides for such investment areas created by the Clean Development Mechanism (trade of carbon credits); and the third and most important element is that prices have come considerably down in each industry: for example solar panels cost now a third of what their price was a few years ago and are about to reach grid parity in only a few years.

Chile, Brazil and interestingly the Dominican Republic have already certain incentives in place (they are still far away from the feed-in-tariffs schemes commonly used in Europe and some US states; or from a subsidies approach used in Japan; but the signs are encouraging), and other governments will follow suit soon.

Obviously, funds can accelerate growth of this sector by getting actively involved in the debate on incentives, so that renewables are not only a solution for remote off-grid areas, but are actually feeding the grid. Ecos is doing so by supporting debates among governments, utilities, distributors and contractors: recently, Latina America’s leading business school INCAE hosted such an Ecos sponsored event at its campus in Costa Rica, and many participants confirmed that they intended to get back to their constituencies to trigger a proactive approach to such models from within their organizations.



But as mentioned before, even without government involvement, cost schemes of renewable energy are coming down at an impressive pace, and the earlier Private Equity and Venture Capital funds analyze this trend and decide to invest, the higher will be the return perspectives at the moment of exit.

Investor families can be distinguished in three groups: a) project financing funds, which do ultimately own or co-own power plants, and have their returns generated by the sale of power; b) carbon funds, which are interested in the offtaking of the carbon credits generated by renewable projects, and have their returns generated by the trade of such credits; and c) funds that are investing in project developers or technology deployers, who have their returns generated by either equipment sales, or by “Build, Operate, Maintain” fees for renewable power plants or farms, or decentralized power generation.

Ecos focuses on this last category: from a global macro-perspective, worldwide data provided by New Energy Finance on recent VC/PE investments in cleantech show an average investment environment in most areas (Early stage VC, Buy-out PE, Project PE, etc) except in the area where Ecos operates: expansion capital (project developers, or technology deployers).

Cleantech focused funds have an incredibly varied and exciting menu of opportunities to support the sector with strategic investments in fundamentally good companies that have a unique opportunity to seize leadership roles through the region with solid growth strategies. Did you, for example, know that the largest wind energy deal in the last quarter did not take place in either the UK’s off shores or flatlands of Texas, but rather in the Dominican Republic?

Ecos is at the heart of the action, currently invested in providers of decentralized biomass to energy plants in Brazil; or in downstream solar integrators (photovoltaic and solar thermal) in Colombia and Peru; as well as supporting the opening of a subsidiary for one of our portfolio companies in the Dominican Republic.

Additionally, we are looking at wind project developers in Brazil, Chile, Mexico, Argentina and Peru; biomass project developers in Mexico, Panama and Colombia; mini hydro developers in Panama, Guatemala and Chile; geothermal developers in Chile, Nicaragua and Guatemala; new downstream solar integrators in Costa Rica, Guatemala, Mexico and Brazil; or energy efficiency solutions providers in Mexico and Dominican Republic. These analysis are still at different levels, but some of them are already in the due diligence phase.

For an international investor crowd, this dynamics is encouraging, and funds such as Ecos do generally welcome co-investors, adding financial and technical strengths to the leads we are analyzing, and providing to interested co-investors a local investment partner, which is very often key to those who have not had experience with Latin America in the past.

If you want to know more about such fascinating opportunities and share Ecos’ enthusiasm about investment perspectives in the Latin American cleantech sectors, please do not hesitate to drop a line.

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