3-19-2012

Is Funding for Renewable Energy in Latin America Adequate?

Inter-American Dialogue's Latin American Energy Advisor

Q and A: Is Funding for Renewable Energy in Latin America Adequate?

Citation: Inter-American Dialogue's Latin American Energy Advisor, March 19-23, 2012; pp. 1, 3, 6. Also online at **www.thedialogue.org**.

The Inter-American Development Bank (IDB) and the Japan International Cooperation Agency (JICA) announced March 16 that they will provide as much as $600 million in financing for renewable energy and energy-efficiency projects in Central America and the Caribbean over the next five years. Is $600 million a meaningful sum in the context of efforts to address the carbon footprint of Central America and the Caribbean? What are the financing needs for renewable projects across the wider Latin America region? How has the private sector's role in financing the region's renewable energy projects changed in recent years, and where is it headed? What sectors within the renewable energy spectrum have the brightest prospects over the next five years?

A: Johanna Mendelson Forman, senior associate in the Americas Program at the Center for Strategic and International Studies and co-chair of the Latin America and Caribbean Council on Renewable Energy:

"The IDB-JICA partnership should be viewed as catalytic, sending a signal of increased confidence in the investment climate for renewable energy after a period of declining resources and interest. Using public funds to jump start investment encourages blended loans—public-private partnerships that create less exposure to companies. It also underscores the growing concern to mitigate the impact of climate change in a region that is experiencing higher sea levels that threaten small island states. After a very dry period for financing, increased private financing coupled with the IDB/JICA offer could be the breakthrough needed to push the renewable energy market into the next phase of growth. This assessment comes after successful auctions for wind and solar energy projects from Mexico and the Caribbean to Brazil. Nevertheless, deforestation from poor land use remains a major problem as it increases greenhouse gases, making the situation even more urgent as energy demand increases. An inconvenient truth, however, is that the Caribbean and Central America are not endowed with any conventional sources of fuel; there is neither oil nor gas in 22 countries that urgently need renewable energy investments. As oil prices remain high, even a $10 increase in price can bankrupt the energy poor nations of the Caribbean. The Latin American and Caribbean Council on Renewable Energy predicts there will be steady growth in renewable energy over the next five years, with $1 billion in new investments planned for this year alone. The challenge will be to help countries develop a legal-regulatory environment that makes investments in this sector attractive. Specifically, the increased potential for wind energy show great promise. European investments, especially from Spain, continue to rise. A second look at new forms of biofuels, including biodiesel for jet fuel, are symbolic of the region's desire to reduce dependency on imported oil, but also develop a regional industry of global proportions. This is clear in Brazil, but also happening in Colombia. "

A: Francisco Burgos, energy and sustainable development specialist at the Organization of American States:

"$600 million certainly represents a good support for the promotion and deployment of renewable energy and energy efficiency in the region. However, this sum is not nearly close to the optimal amount that is needed to address the region's greatest needs for sustainable energy systems. One characteristic of the energy sector in Latin America is that it isn't uniform due to major differences in capacities, investment and demand within individual countries. During 2011, for example, energy demand grew 7, 5 and 2 percent in Honduras, Panama and Costa Rica, respectively. However, it can be said that the financing needs for renewable energy projects in Latin America is around 3 percent of the region's GDP. In recent years, the private sector has played a pivotal role in financing renewable projects in the region. This can be illustrated by the deployment of wind farms in Mexico, the Dominican Republic and Nicaragua; by the installation of co-generation facilities in sugar mills in El Salvador and Honduras; as well as by the waste-to-energy facilities in Peru, Brazil and the Dominican Republic. In the near future, private investment in renewable energy will be mainly oriented to wind, biomass, some hydro and solar projects. However, this investment highly depends on the policy framework of each country. Without a good policy framework, and without conducting the proper pre-feasibility analyses for renewable energy project development, the private sector will not be able to reach its full potential in financing renewable energy in the region."

A: Deborah Bleviss, professor in the energy, resources and environment program at Johns Hopkins University:

"The $600 million can only be seen as a 'down payment' for the region. The most important way to evaluate this sum is how it is spent. Too often, while well-meant, funding of energy efficiency and renewables has been configured as 'one-off ' projects. The project thus stands alone and, because of the lack of any supporting framework or development of an indigenous industry, its long-term viability is challenged and often dies after a few years. To be truly catalytic, the investments by the IDB and JICA need to meet the following criteria: 1) They must be accompanied by policy changes that enable similar projects to follow. 2) They must support the development of indigenous renewables and energy efficiency businesses that can implement projects in the future; this includes supporting the development of businesses that approach these options from a systemic viewpoint, such as energy service companies. 3) They must tackle persistent barriers to the renewables and energy efficiency arenas such as high transaction costs (i.e. through bundling of projects), small market size for smaller countries (i.e. through harmonization of policies across countries); and lack of information and training (i.e. through professional education schools and widespread information and labeling programs). 4) To the maximum extent possible, the two institutions should refrain from 'picking technologies.' Different technologies are applicable in different parts of the region for both renewables and energy efficiency. There is no value, for example, in picking just one end-use such as lighting, to address the overall energy efficiency needs, as has been done by donor agencies in the past. Moreover, since there is no magic answer to addressing the criteria just listed, the IDB and JICA funds should test a variety of approaches to determine what works."

A: Jorge Asturias, subregional coordinator for Central America at the Latin American Energy Organization (OLADE):

“The announcement represents more available funding for investors interested in renewable energy and energy efficiency in Central America and the Caribbean; both issues have a high priority on the region's energy agenda. However, the use of these funds will likely depend on the competitiveness of its economic and financial conditions and also of the administrative procedures. Investment in renewable energy is flowing in Central America. According to the Economic Commission for Latin America and the Caribbean (ECLAC), Central America has incorporated 1,527 MW of renewable energy between 2009 and 2011, with around $3.4 billion of private and public investment. The regional power expansion plans for 2009-2023 include a total of 62 hydroelectric projects with a capacity of 7,341 MW. ECLAC's latest electricity report found that about 87 percent of the regional electricity market is met by five groups: Spain's Gas Natural (formerly Union Fenosa) with 22 percent, Empresas Publicas de Medellín with 21 percent, Costa Rica's ICE-CNF with 19 percent, Honduras' ENEE with 15 percent and the United States' AES with 10 percent. In Central America, hydropower remains the leading renewable energy source; however, wind power is presenting growth in countries like Costa Rica, Honduras and Nicaragua. At OLADE, we believe that energy efficiency is an important and necessary resource that is not yet fully utilized. In the vast majority of Latin American and Caribbean countries, the efforts in energy efficiency have been occasional, short-term and reactive to the occasional problems of energy supply. It is absolutely necessary to institutionalize energy efficiency through the strengthening of national institutions, including laws and regulations in order to achieve sustainable energy savings, differing investment needs in the energy sector, improving the country's finances and reducing CO_2 emissions."

A: Mark Konold, project manager of the Energy & Climate Program at Worldwatch Institute:

"The $600 million pledged by the IDB and JICA is a meaningful sum not only because of the amount of money involved but also because of the significance of the two entities behind it. It is no surprise that the IDB is continuing its commitment to spurring renewable energy investment in the region, but to also have JICA's support underscores the faith its directors have that the region is worth investing in. The private sector is less hesitant than it used to be when it comes to waiting for signals from governments and a little bolder in pursuing favorable projects. That being said, long-term power purchase agreements and other such mechanisms that can reduce uncertainty and up-front costs will help advance the market in significant ways. In addition, the needs of the financial sector are one of capacity building: learning from other successful economies on how to effectively underwrite and/or collateralize renewable energy investment. I think that unfamiliarity with 'how to do it' keeps financial institutions from fully jumping in and supporting the industry. A $600 million pledge should act as a strong sign that key players in the region—and a key player from outside the region—believe in the viability of the industry and might even be able to provide the expertise necessary to help financial institutions get comfortable, and therefore more actively support, renewable energy investment."

The Energy Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*