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Keynote Address

Considerations in Financing Sustainable Energy in Small Caribbean States

by

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Chairman,

Excellencies

Ladies and Gentlemen

I welcome the opportunity to participate in the Vienna Energy Forum 2015. This Forum provides a useful platform for discussing the range of relevant sustainable energy development issues and sets the stage for further action at the COP21 in Paris, later this year.

I wish to congratulate the meeting organisers for drawing attention to “New and Innovative Financing Mechanisms for Sustainable Energy”, which is the topic of discussion for this Panel. Interestingly, my own organisation, the Caribbean Development Bank (CDB) recently approved a new Energy Sector Policy and Strategy that highlights the need for similar approaches to address sustainable energy development in our borrowing member countries.

We have embraced the Sustainable Energy For All objectives, and the initiatives under the Decade for Sustainable Energy For All (2014-2024), which have renewable energy, energy efficiency and energy access as a main focus. Promoting sustainable energy (meaning renewable energy and energy efficiency) is an objective which is relevant to all of the Bank’s borrowing members, across all sectors; but the issue of access to energy is particularly relevant to Haiti given that energy poverty remains an acute challenge. The proposed inclusion of Goal Number 7¹ (which focuses on energy) among the Sustainable Development Goals in the post- 2015 Development Agenda, gives international recognition, in the context of human development, to the importance of access to energy for all. A key challenge which the international community must address, therefore, is the provision of adequate, timely and appropriate financing for the realisation of this goal.

Access to affordable energy is intrinsically linked to increased productivity, enhanced competitiveness, gender equality and poverty reduction – all of which will positively impact the quality of life of the people of our region. One of our greatest challenges is an over-dependence on imported fossil fuels, which are subject to high price volatility. Electricity prices in our Region are about three times those in the United States, raising immediate concerns about export competitiveness and sustainable economic growth and development.

¹ *SDG Goal No 7: Ensure access to affordable, reliable, sustainable and modern energy for all*

Today, my remarks will focus on some innovative financing mechanisms which will enable our region to transition from its dependency on imported fossil fuels to a greater reliance on sustainable energy sources.

Ironically, our Region is endowed with considerable renewable energy potential. For many Caribbean countries, then, sustainable energy is the only indigenous option for achieving energy security. There is, however, a perception that investments in certain forms of renewable energy can be extremely risky.

This perceived risk, coupled with the capital intensity of some investments, calls for non-traditional financing mechanisms for some forms of renewables. For example, geothermal energy development requires significant up-front capital outlays to establish resource availability and quality. Traditional financing instruments used mainly to finance diesel and steam power generation and transmission and distribution would be inadequate for renewable energy development because of these real and perceived barriers. In cases where domestic markets are also small, innovative approaches, incorporating concessional financing would be essential!

An enabling environment to mitigate investor risk, government risk and risk to the consumer must also be created to facilitate investment. Appropriate and stable policy, legislative, and regulatory frameworks, which increase certainty of a fair price to the investor for electricity produced over the long term, and of continued access to the grid, are also essential. The relatively small and isolated nature of our domestic markets in the region, and the consequential weak institutional capacity, limit the achievement of economies of scale and accentuate risk, in the eyes of the potential investor.

Ladies and gentlemen, for renewable energy investments, size does matter!

The scaling up of renewable energy and energy efficiency investments to achieve the desired impact would require new and innovative approaches that consider the peculiarities of small states. For example, financing instruments and mechanisms to support renewable energy in the Caribbean should also include technical assistance to address capacity issues.

Incentives used to promote renewables in developed countries, or even in large developing countries, may not be appropriate for small island states. For example, “net-metering” as a grid-feed-in mechanism has been utilised successfully to promote distributed generation, especially from solar installation. Here, the generator receives the same price for electricity sold as for that purchased from the electric utility - an inherent subsidy by the utility. This approach is not sustainable as the cost of the subsidy cannot be borne either by the utility or the government in small states.

In the Caribbean, we find a variant of this mechanism, known as “net-billing”, to be more sustainable. Here, the small renewable energy generator may be remunerated at an equitable and attractive tariff reflective of the benefits provided, while avoiding subsidies.

Barbados has successfully used the net-billing approach supported by appropriate legislation and regulation, to increase renewable energy penetration over a very short space of time. In many respects, this is a success story.

Bundling of projects for procurement purposes continues to receive consideration as a mitigant for the impact of small size and high costs of domestic markets... However, there has been little success, to date in the region, due to difficulties in coordinating timing of implementation across countries and projects.

CDB is actively pursuing initiatives that will address some of the barriers to which I have referred. To respond to the need for concessional investment financing, one of our strategies is to provide a blend of loan and grant financing on appropriate price and repayment tenor. Just last week, I signed a Contribution Agreement with the European Commission for the Sustainable Energy for the Eastern Caribbean (SEEC) Programme to promote renewable energy and energy efficiency in six Caribbean countries. The programme, to be funded through the Caribbean Investment Facility, will be co-financed with grant resources from UK-AID and loan resources from CDB.

Grant and concessional loan resources available for climate financing will continue to be important sources of sustainable energy financing. CDB is proactively seeking accreditation with both the Adaptation Fund and the Green Climate Fund to intermediate resources to its borrowing members, for climate action projects, including those for sustainable energy. We have already accessed a Climate Action Line of Credit for approximately US\$64 million from the European Investment Bank. This line includes an interest rate subsidy to sub-borrowers, and technical assistance support for project preparation and capacity building.

To tackle the peculiarities of financing geothermal energy development, CDB and its development partners are in the process of establishing a Facility which will offer instruments suitable to each stage of geothermal development, utilising appropriate combinations of grants, contingently recoverable grants, and appropriately-priced concessional loans.

Difficulties in promoting renewable energy and energy efficiency among the micro, small and medium sized enterprises are also being addressed through pilot energy efficiency lines of credit with national development banks, supported by CDB technical assistance.

In the context of high indebtedness, borrowing member governments are increasingly showing interest in public private partnerships (PPPs) for financing renewables. CDB, the Inter-American Development Bank, and the World Bank recently established a new Unit, at CDB, to build PPP capacity across the region.

In closing, I wish to reiterate that access to timely and appropriately priced financing, like that available from existing and emerging climate finance windows, is critical to achieving energy sustainability in small, highly-indebted, vulnerable Caribbean states.

Mr. Chairman, I thank you.