

A global 'Green Recovery' set to offer strong investment opportunities within Caribbean renewables infrastructure projects

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The Caribbean and Latin America, an attractive environment for renewable energy investments – San Isidro Fotovoltaica, a 6.5 MWP solar PV project in El Salvador (photo: MPC Energy Solutions)

According to the Organisation for Economic Co-operation and Development (OECD), **Latin America and the Caribbean is one of the worst regions affected by the COVID-19 pandemic**. This, paired with some really challenging weather conditions that have developed in some of the countries in the area, is having a toll on regional and local economies.

Having said that, **governments across the region have made strong commitments** in recent years to fight climate change and move away from the use of fossil fuels. Together with the urgent need for inward investment to make Latin America and the Caribbean more resilient to future uncertainty this is likely to make investments into renewable energy projects highly attractive.

Increased demand for new projects in the region

Renewable energy infrastructure projects are currently offering strong incentives to governments in the region. According to the international organisation Sustainable Energy for All, **"for every US dollar invested in the transition towards renewable energy, an additional 93 US cents of GDP growth above business as usual is expected to occur."**

With this in mind, the individual governments across the countries in the region are likely to welcome a number of new projects, attempting to make the barriers to entry as low as possible.

We are likely to continue to see more projects in the commercial and industrial (C&I) sector in the Caribbean (especially in Puerto Rico, Dominican Republic, Jamaica) where the private sector will drive small to medium sized project implementation to cover own power demand with low or zero carbon generation. Here we will continue to see more hybrid concepts integrating solar PV, battery storage and LNG-fuelled generators to supply power on a 24/7 basis and independent of weather.

The governments will further push for resilient renewables infrastructure such as micro-grids in countries like the Bahamas, Cayman Islands and Barbados. New tenders and project extensions of utility scale projects will be limited to larger countries such as the Dominican Republic, Jamaica, and Trinidad & Tobago. Most new utility scale projects will be built together with battery storage, given the vulnerable local power grids.

Increased competition may lead to a rise in demand for new projects

The governments' push to bring in new projects also comes paired with an increase in interest from a number of investors and organisations. Recent partnerships such as the one between the **International Renewable Energy Agency (IRENA) and the CARICOM Development Fund to accelerate the energy transition in the Caribbean** is likely to attract further investors into the pool, raising the competition for projects of this kind.

Increasing competition will create further pressure on power prices when securing power purchase agreements (PPAs) in Central America and the Caribbean islands. We expect more local equity investors to enter the renewable energy sector in the region as various local fund managers are raising capital and slowly gaining experience in the sector. Falling Levelized Cost of Energy (LCOE) and debt financing costs will only partially impact this trend lowering overall returns for investors. However, falling power prices means this will be paired with a lower risk for future reduction or payment default of the off-taker.

A Biden presidency also offers a helping hand

International politics are also poised to boost the sector within the region. The Biden presidency is likely to accelerate growth in the sector as climate change is a key priority for him. The industry is set to benefit from the "green recovery" plans to mitigate economic impact of the COVID-19 pandemic. Biden's commitment to re-join the Paris Agreement from day-one and the appointment of John Kerry as special US envoy are both very strong signals to the public and industries. This will also positively influence areas such as Central America and the Caribbean and likely increase regional public and private funding.

Central America and the Caribbean remains a highly attractive environment for renewable energy investments offering a broad variety of opportunities for 2021. We believe that the clean energy sector will require about USD 18 billion of investment in the coming decade across the region. This means there are ample opportunities for investors to capitalise on what is clearly a growth sector that is set to yield strong returns.

Experienced management, technical know-how, and own operations management are key factors for successful investments and project implementation. We believe that, by delivering an ongoing pipeline of renewable infrastructure projects that offer strong returns to investors, asset and investment managers can make a strong impact in the region by increasing economical resilience and decreasing the dependence on fossil fuels.



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