

Context

Companies in El Salvador heavily rely on fossil fuels to meet industry, transport, and power generation energy needs. However, enterprises have started to shift away from traditional energy sources. Currently, renewable energy sources account for nearly 80% of the energy generation (8.7% solar, 9.2% biomass, 27.1% geothermal, 34.8% hydroelectric) (El Salvador Aumenta, 2020). Having a just transition can boost investment and employment, improving companies' ability to grow.

Although companies are working toward a green economy, they face multiple challenges. El Salvador's economy consists mostly of pymes (small and medium-sized enterprises). Without the proper investment, they do not have the resources to implement any more changes. Currently, the transportation sector relies only on fossil fuels. For these employers to transition, more than just investment will be necessary. With more than one-third of the population living below the national poverty line (El Salvador Aumenta, 2020), Salvadorans cannot afford increased prices in transportation. The demand for this service will decrease, resulting in a surplus and lower revenue for companies. Additionally, there is a lack of trust between transportation companies. They will have an incentive to defect and leave others with the costs of a green economy, monopolizing the market. These challenges, with the addition of the obstacles posed by the government, such as the last decade's energy price increase (Rauda Zablach, 2016), slow down the green transition.

Important Past Actions

For 75 years, the Executive Hydroelectric Commission of the Lempa River (CEL) has been leading the energy sector. Recently, it has focused on expanding its business to include renewable energy, like geothermal projects launched through LaGeo, its subsidiary company.

In 2018, the Interamerican Development Bank granted a 20-million-dollar loan to El Salvador to support pymes' investments in renewable energy projects and enhance the efficiency of industrial production (El BID destina, 2018). However, we must consider how El Salvador's debt equals almost 92% of its GDP, which results in rising interest rates. This is very harmful to El Salvador, as its economy is not growing. Stagflation raises prices and makes it harder for companies to find working capital and maintain utilities without increasing product prices. Foreign countries/institutions will not take the risk to invest in El Salvador's green transition unless debt decreases. This can be achieved by stopping corruption and using the government's money for investments and payments.

Recommendations

Many renewable project developers in El Salvador face challenges with administrative procedures and permits (El Salvador Renewable, 2020). A decentralized process delays project development and increases costs. Accordingly, my first recommendation based on the assessment done by the International Renewable Energy Agency (IRENA), an official UN observer, is to foster project development and financing for renewables. It is essential to facilitate this transition by establishing a unified national agency that can ensure transparent processes and well-defined agendas.

Another urgent action IRENA recommends is the creation and adoption of institutional frameworks and coordination. In the example we give about the transportation sector, the issue arises due to a lack of explicit expectations for companies in regard to the green transition. To avoid this collective action problem, there should be an action plan that outlines the roles and expectations for each participant (depending on the companies' size and capabilities). It should also include the consequences of not abiding by the agreement. This can help set the path for long-term coordination. Additionally, to support both transmission and generation planners' coordination, the framework should also include the identification of renewable energy zones in the most suitable areas for project development. Following these two recommendations can help El Salvador to attract foreign investors by centralizing the green transition process.

Cited Work

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