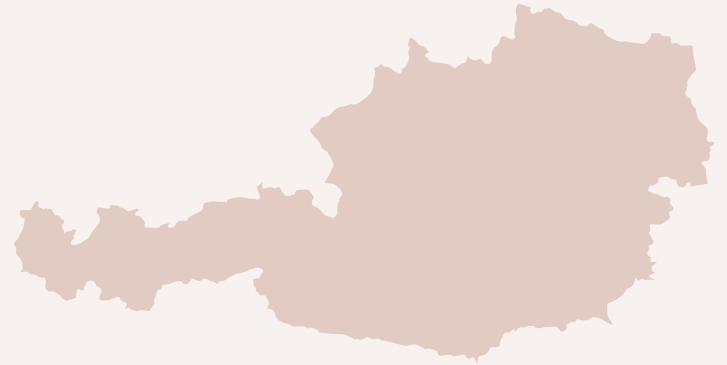


DEVELOPING WIND FARMS WITH FISCAL SUSTAINABILITY IN AUSTRIA



GUIDING PRINCIPLE 8: FISCAL SUSTAINABILITY AND INNOVATIVE FINANCING

Infrastructure development should be developed within frameworks of fiscal transparency, financial integrity and debt sustainability.



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BACKGROUND

After the global financial crisis of 2007-2008, Austria and Europe faced significantly reduced levels of investment and growth, creating a need to improve the business environment for raising funds for infrastructure. As a response, in the European Union (EU) context, the Investment Plan for Europe of 2014 (also known as the Juncker Plan) and its successor (the InvestEU Programme) were adopted to reverse the downward trend of low investment on the continent with three specific objectives: to remove obstacles to investment; to provide visibility and technical assistance to investment projects; and to make smarter use of financial resources (European Commission 2016).

At a national level, Austria strengthened its policy and regulatory arrangements by building comprehensive frameworks for sustainable development, fiscal policy and environmental management. Broadly, Austria's "National Strategy for Sustainable Development"

integrates sustainability into policies and actions at the national level through institutional cooperation mechanisms, management rules, indicators and monitoring procedures (Green Fiscal Policy Network 2017). One of the government's key environmental goals was to reduce greenhouse gas emissions by increasing investment in electricity generation from renewable sources, supported by frameworks including the "National Energy Strategy", the *Green Electricity Act*, the *Climate Protection Act* and the *Energy Efficiency Act* (Grantham Research Institute on Climate Change and the Environment 2015). Austria is projected to significantly reduce its greenhouse gas emissions from energy industries by 2035, as shown in Figure 8.

In this context, Austria has developed renewable energy infrastructure through projects such as the European Investment Bank (EIB)-financed "Windfarms Prinzendorf and Powi" which contribute to sustainable infrastructure development while ensuring fiscal sustainability.

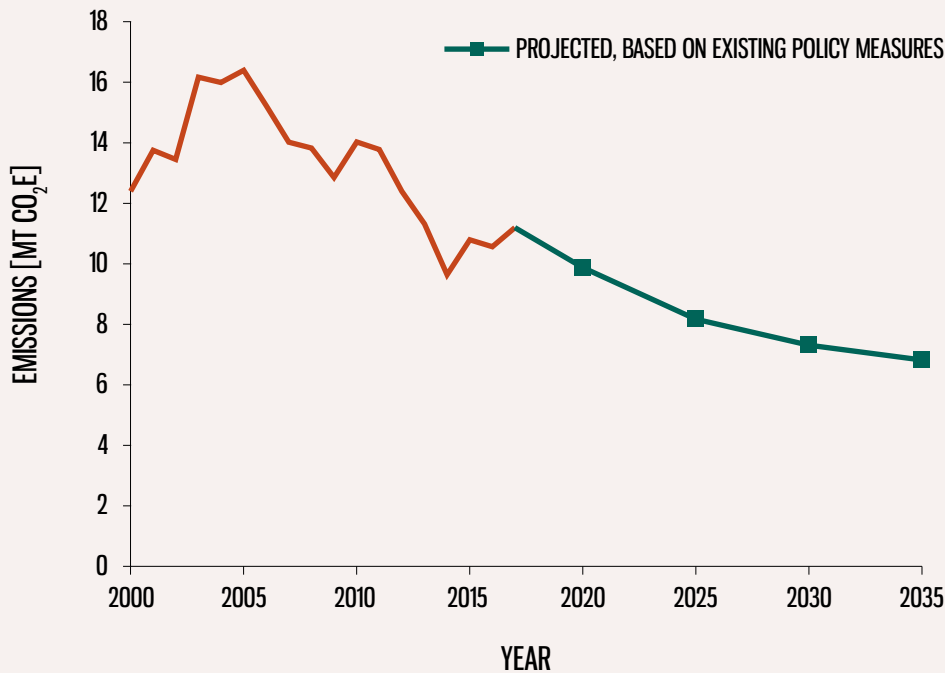


FIGURE 8: AUSTRIA'S GREENHOUSE GAS EMISSIONS, ENERGY INDUSTRIES

Source: based on Austria, Environment Agency (2019, p. 22)

“WINDFARMS PRINZENDORF AND POWI”

The “Prinzendorf and Powi” operation comprises the repowering and development of three wind farms in Lower Austria, with a grid-connected capacity of 58 megawatts in total, bringing clean energy to thousands more households. Under this operation, the new Poysdorf-Wilfersdorf V (Powi) wind farms will have 4 turbines, while the Prinzendorf III wind farm consists of 10 wind turbines that replace 9 old wind turbines (repowering). The EIB is providing 63 million EUR of finance for the construction and operation of the new wind farms. By providing long-term funding, the EIB support contributes towards mobilizing private investment, and reducing greenhouse gas and air pollution externalities.

The development of wind farm infrastructure aligns with national and international targets for renewable energy generation, with climate action being a priority EIB objective. Renewable energy represents a priority sector for EIB financing. According to the EIB’s current Carbon Footprint methodology, by obviating the need for electricity generation from existing and new power plants in Austria (75 per cent operating margin and 25 per cent build margin), the total relative effect of “Prinzendorf and Powi” is a net reduction in CO₂ equivalent emissions of around 48 kt CO₂e/yr (EIB 2018, p. 3).

FISCAL SUSTAINABILITY

In this case, Austria has partnered with the EIB to help address infrastructure investment gaps sustainably. Such projects are implemented within Austria’s comprehensive fiscal policy framework, which enables the development of sustainable infrastructure without generating untenable debt. In 2018, the IMF’s debt sustainability assessment concluded that Austria’s “public debt is sustainable within the medium-term projection horizon, though ageing cost pressures are looming in the longer term” (IMF 2018a, p. 29). Environmental taxes have become an important source of revenue for the government (Organisation for Economic Co-operation and Development [OECD] 2014), while subsidies are also commonly used to promote a green economy. For example, the *Environmental Support Act* provides direct financial assistance to local authorities, industries, farmers and households for investment related to renewable energy and energy efficiency (Green Fiscal Policy Network 2017). Like other European countries, Austria has a feed-in tariff (FIT) scheme, the costs of which are not borne by the taxpayer or a private investor but by the end consumer. The cost of the FIT is thus reflected in the price consumers pay for their electricity. In 2020, this accounted for around 10.1 per cent of the average household electricity bill (Austria, E-Control 2020).

At the same time, Austria has built strong fiscal institutions over the past decade – notably through budget reforms introduced in 2009 and 2013 – in order to ensure fiscal sustainability. According to the IMF, these efforts have resulted in sound fiscal transparency practices in Austria (IMF 2018b). Among the key good practices are public fiscal reports covering reconciliations between alternative measures of fiscal aggregates, which are published in a frequent and timely manner. Budgets and forecasts have a clear medium-term and performance-oriented focus, and are guided by specific fiscal policy objectives, compliance with which is subject to independent scrutiny.

GENDER BUDGETING IN AUSTRIA

Austria has established measures for integrating gender perspectives into budgeting using a gender needs assessment, baseline analyses, ex ante and ex post gender impact assessments, as well as gender-disaggregated incidence analysis (IMF 2017, p. 33). The government introduced an obligation to include a gender mainstreaming strategy in national policies (European Institute for Gender Equality 2020). To implement gender mainstreaming in budgetary processes, gender budgeting was included in the Austrian Constitution in 2009, leading to several resolutions being passed. All federal ministries are now required to consider gender equality in the planning, implementation and evaluation of budgetary measures (United Nations and the Rule of Law 2020).

MOBILIZING PRIVATE FINANCE, WITH HIGH ENVIRONMENTAL STANDARDS

The government has historically been successful in mobilizing private funding for research, development and innovation in the energy sector. For every Euro spent by the government, Austria mobilizes on average 2.5 EUR in private funding (International Energy Agency [IEA] 2020). The Prinzendorf and Powi operation is designed to crowd-in private sector financing and to increase commercial banks' confidence in the promoter's long-term financial sustainability.

The bulk of the financing is backed by a guarantee from the European Fund for Strategic Investments (EFSI), the central pillar of the Investment Plan for Europe. Much of this has gone directly to one of Austria's largest wind power producers (the promoter), which is also investing 21 million EUR of its own funds (EIB 2020). The remaining loan amount of 22.1 million EUR is being provided by a private Austrian bank, funded by the EIB. Under this plan, different public and private actors are working together as strategic partners to mobilize investment in sustainable infrastructure and boost the competitiveness of both the Austrian and the wider European economy. According to the EFSI assessment, the operation will help improve financing conditions in Austria, while generating sustainable growth and employment (EIB 2019). The arrangement also improves the counterpart's funding terms compared to market financing sources (through an interest rate reduction and/or the longer lending term). This helps to attract private investors through positive signalling effects, promoting synergies in co-financing with other public funding sources for renewable energy.



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The promoter has successfully run wind farms, primarily in Austria, since the end of the 1990s and, along with its contractors, was assessed as having a strong environmental and social management capacity (EIB 2018). In 2014, the government of Lower Austria identified preferential zones for development based on a Strategic Environmental Assessment. The three wind farms are located inside such preferential development zones (EIB 2018). In line with Austria's *Environmental Impact Assessment Act*, the wind farms in the Prinzendorf and Powi operation underwent an EIA process, involving expert studies on key risk areas and public consultation. Given the presence of protected species in the project areas, each site also underwent an avifauna impact assessment. The studies concluded that the projects will not have significant negative environmental impacts post-mitigation.

Accordingly, the environmental permits were approved but made conditional upon obligatory mitigation and monitoring measures, such as establishing fallow areas to improve available habitats for birds and bats, and taking some turbines out of operation at defined ambient conditions to protect bats (EIB 2018). To access the EIB financing, the promoter needed to commit to demonstrating that (amended) permits were in place and in line with final project design. The Prinzendorf and Powi operation therefore upheld the strict environmental standards of the Austrian Government and the EIB in mobilizing private sector participation.

REPLICABILITY

The combination of Austria's sound regulatory and policy frameworks and EIB support has helped the country attract private investment into renewable energy infrastructure. The 14 new wind turbines will produce a total of around 160 million kilowatt-hours (kWh) annually. Renewables currently cover 29 per cent of Austria's total primary energy supply (IEA 2020), and there is significant potential to increase this figure, while decreasing dependency on imports of fossil fuels. In just a few years, the country was able to improve its business environment and promote sustainable infrastructure development, while ensuring fiscal sustainability.

Austria aims to provide 100 per cent of electricity consumption from renewable energy sources by 2030 according to the draft Integrated National Climate and Energy Plan (Austria, Sustainability and Tourism 2019, p. 13). In order to reach 2030 targets, the level of installed wind capacity needs to grow further from the 3.2 gigawatts (GW) level achieved in 2019. The Prinzendorf and Powi operation contributes to achieving this goal.

Globally, as national budgets become increasingly constrained due to COVID-19 demands, governments require innovative and inclusive financing solutions to share the costs and benefits of investing in sustainable infrastructure. Partnering with infrastructure and development banks can be a judicious option for addressing the urgent need to mobilize finance. As demonstrated, the EIB supports low-carbon infrastructure projects across Europe that are both bankable and meet strict environmental and social standards.

KEY INSIGHTS

- > Austria's infrastructure is conceived within a framework that comprehensively takes account of debt, budgeting concerns and other fiscal vulnerabilities.
- > Mobilizing private sector participation and long-term private finance for wind farms addressed the problems of complexity, risk and insufficient availability of long-term funding from commercial banks or public sources.
- > The EIB "Windfarms Prinzendorf and Powi" operation contributes to key national targets, financing low-carbon infrastructure in preferential development zones.

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