

FINANCING ENERGY RELATED MEASURES IN THE WATER SERVICES SECTOR

After the lunch break, the Forum turned to the all-important question of money, discussing financing opportunities for energy efficiency projects, taking a close look at the impact of the current EU Taxonomy on investments and finally learning about real-life examples, from international support for the reform agenda of a whole nation to a utility company that engaged with a venture capital fund to support green startups.

Dilip R. Limaye, President of SRC Global Inc. and senior advisor to the World Bank on energy efficiency and renewable energy strategies, walked the audience through a maze of financing options for energy efficiency measures in utilities. Noting that investments in energy efficiency typically have a simple payback between 3 months and 5 years, he presented the World Bank's concept of a "Financing Ladder" showing a 12 step progression from strictly public financing to commercial financing and the degree to which countries in the Danube region are moving up this ladder.

Based on international experience, six of those 12 steps represent options for sustainable utility financing, reaching from direct lending to municipal utilities and energy savings capture with public financing over revolving energy efficiency funds and support by public or super energy service companies to bank financing or commercial financing with risk guarantees. Mr. Limaye showed the structure of all those vehicles in detail, concluding that many sustainable financing options are available for WSS utilities to substitute grant financing and stating the explicit interest of the World Bank Group in collaborating with utilities, associations and holding companies to work with governments and regulators to leverage private financing of efficiency improvement measures.

He also ensured the audience that while the complexity and the range of available options may look a bit overwhelming, even the most complex financial instruments are now proven and wrapped up in ready-to-use documents.

Addressing the audience from Brussels, Juan Bofill of the Water Management Division of the European Investment Bank then presented the European angle, elaborating on the EU Taxonomy, its relation to the EU Green New Deal, and the impact on energy saving and decarbonizing investments in the water sector.

Broadly speaking, the EU taxonomy is a classification system to establish a list of environmentally sustainable economic activities. It has been introduced to help meet the ambitious EU climate goals by identifying investment opportunities and guiding capital to the right places. To fit the taxonomy projects must substantially contribute to at least one of the six EU environmental objectives, do no significant harm to the other objectives and comply with minimum safeguards. To give an idea of the significance of the EU Taxonomy: It is the basic rulebook for a staggering 1 trillion Euro of investments in climate action and environmental sustainability between 2020 and 2030.

Next, Lyubomir Filipov took the stage with an innovative approach to innovation financing: Tapping into the Bulgarian startup scene, his company Sofia Water has developed a model for partnerships with startups, using Sofia Water as a testing ground for their ideas and at the same time gathering valuable know how. This is in keeping with Mother Company Veolia's goal to be the benchmark company for ecological transformation. The Group's interest in game-changing solutions for water, waste and energy management met a very healthy and thriving startup ecosystem in Bulgaria, with state support and quality incubation programs already in place.

The company teamed up with venture capital company Innovation Starter Accelerator and invited startups with interesting solutions for the water sector to a three-stage screening process, winding up with startup companies that entered a program of mentorship and "on the spot" product/solution validation of their solutions in the form of a "living lab" in Sofia Water.

One of the winners was actually a team of high school students led by their teacher. They won with an idea for water quality control through sensor technology available to every citizen as well as predictive analyses of potential disruptions, and then went on to win several prestigious startup competitions after that. "Always have an eye on young people – they may be smarter than us."

Joining the speakers for the ensuing panel, Eduart Rumani, National Programme Officer at the Swiss Embassy in Albania, provided insights into the Swiss contribution to Albania's freshly started ambitious water sector reform. Switzerland has been supporting Albania since 1992 as one of the largest bilateral donors, with infrastructure services and climate change ranking high on the priority list.

Switzerland supports Albania's National Water Supply and Sanitation Sector Modernization Program which set out to improve the overall water sector financing mechanisms, reshape public investment flows improve the operational and financial performance of utilities and expand access to water supply services. The overall program budget of approx. \$142 million is carried by the State with \$60 million, a World Bank soft loan of \$75 million and \$7 million grant funding by Switzerland.

Sokol Xhafa, CEO of the Regional Water Company in Pristina, Kosovo, then related his personal experience with financing and related challenges when a water company aims to improve its energy efficiency, stating that with charging the lowest water and wastewater tariffs in the whole region, his company struggles with financing the necessary investments to modernize an aging, energy-consuming infrastructure in challenging terrain: "Some pumping stations are rather old, some were bombed during the war, and we are trying to improve and modernize systems, but we can't afford to replace every single pump, we have to focus on the most critical spots. Yet we have succeeded in delivering 24/7 to 100% of our customers since 2017."

Replying to questions from the audience, Dilip Limaye had the following recommendation for utilities that lack the funds for an expensive energy audit, but need to improve their situation fast: “Put together a data base on your operational situation. In many cases this has proved to be sufficient to figure out roughly what type of investment is needed.”

Asked about support that companies can find to handle the complexities of the EU taxonomy, Juan Bofill names the European Investment Bank Advisory Hub that support those who are building a project in navigating the application process. His caveat, though, is that applicants need to get their ducks in a row before approaching the Bank: “A lot of time we see utilities that don’t know the length of their networks, their infrastructure leakage index, their energy consumption. To work with us, you really have to know your system and your baseline.”

Lyubomir Filipov then commented on financing options in general, recalling a “beauty contest” that his company held four years ago to refinance 50 million Euros to profit from decreasing rates: “We invited the biggest Bulgarian commercial banks and ran a five month selection process. The interesting thing is that from the start the only things banks were really interested in was the regulatory model that defines tariffs and therefore the utility’s main source of funding. So, if a regulatory model is not good, utilities will have difficulties finding banks. This has to be addressed, and it should be implemented as a policy on the national level.”