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POLAND CATCHING-UP REGIONS

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TOWARDS ROBUST, SCALABLE AND INCLUSIVE CLEAN AIR PROGRAM FOR ALL

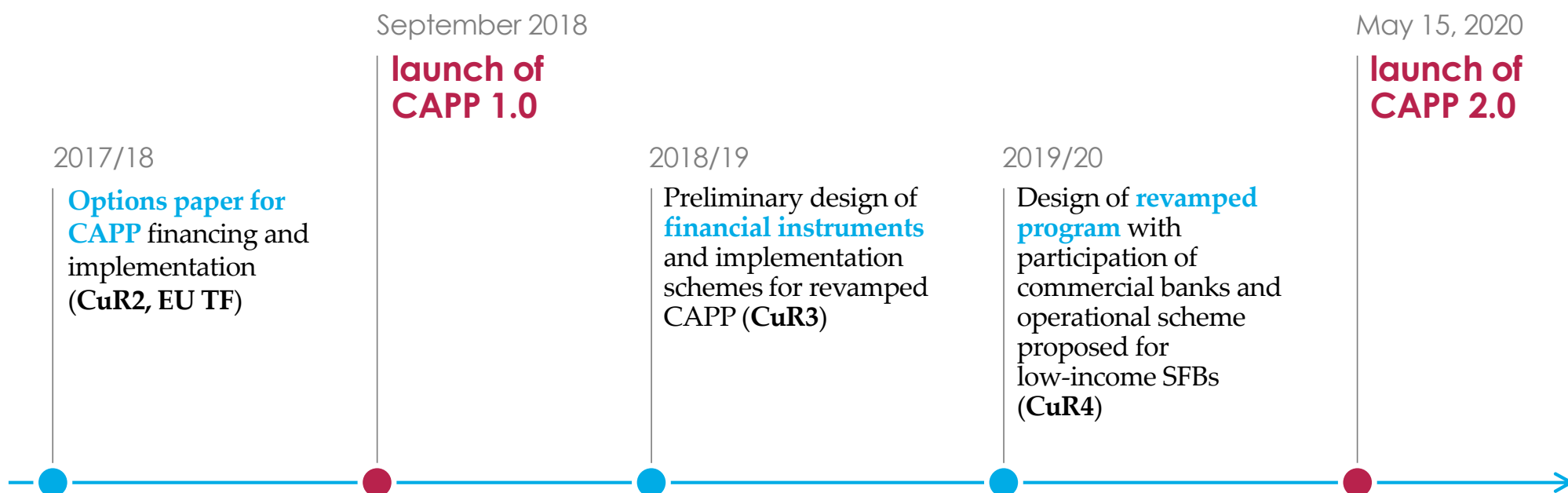
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TIMELINE OF WORLD BANK SUPPORT FOR CAPP THROUGH CATCHING-UP REGIONS INITIATIVE, FINANCED BY EC, AND KEY MILESTONES



CUR4 AGREEMENT FOCUSED ON KEY AREAS TO SUPPORT ROBUST AND SCALABLE OPERATIONAL MECHANISM WITH AGILE DISTRIBUTION SYSTEMS

1. Simplification of applications and financial products

- Increase engagement with **Commercial Banks**
- Framework for a **risk sharing mechanism** supportive of CAPP, including guarantees
- Oversight of **LEME/ZUM**

2. Lower-income identification and verification

- **Eligibility conditions and income concept**, recommendations for eligibility criteria for lower income segments (Part 2 and low-income)
- **Assessment of existing municipality structures** that support identification and verification
- **Proposal** for how municipality services or others could support verification and engagement with lower-income population populations

3. Development of the operator role for low-income program

- **Market assessment** of operator structures.
- **Engagement** with potential operators on capacity, willingness and conditions to participation. Limitations to their participation also to be identified.
- **Proposed mechanisms**

MAY 15TH REFORMS HAVE PUT IN MOTION A SIMPLIFIED STRUCTURE OF SUBSIDIES WITH “BACKBONE” INFRASTRUCTURE

Tax relief only

Highest income

- (>100,000 PLN; approx. 3%): tax relief

Part 1 CAPP

Middle and high income – approximately 1.7m Single Family Buildings (SFBs)

- Predominantly 30% investment grants, 45% for higher efficiency boilers.
- Pending important element of the May 15th reform: launch of commercial bank products

Part 2 CAPP

Lower-income (<1400 PLN) – approximately 1.5m buildings

- 60% grants for both standard and higher efficiency boilers.
Available since **October 21st 2020** with support from municipalities for income verification.
- Self-direction of households compromised by lack of clear division between CAPP and SSP.

Low income
and socially
vulnerable

Missing pillar on the national level: incomplete and urgently needed in 2021

- Despite extensive effort to increase uptake and incorporate municipality views into reforms, Stop Smog Program has limited municipality to date – 7 municipalities, 1027 SFBs.
- The financial needs of this segment are substantial – approximately **1.1m, of which ~450k social assistance beneficiaries**. These populations also need elevated levels of administrative support.

CAPP SCALE-UP REQUIRES HOLISTIC APPROACH

CAPP must scale-up (from 8k → 25k applications/month) to serve 3m SFBs in 10 years. Requires engagement across four dimensions.

Financial mechanisms and support

Scalable financial instruments to subsidize and support own-financing of investments are vital to ensure all SFB owners able to invest.



Promoting demand

Structured outreach, communication and training is needed to raise program awareness, shift attitudes towards the program and keep all parties informed of program updates.



Regulations and enforcement

Anti-smog regulations needed to stimulate the market and lay out the timetable for shift towards cleaner technologies. Verification mechanisms and penalties needed to support compliance.



Coordination and cooperation

Policy coordination needed across Ministries to support policies. Coordination between national direction, voivodeship and municipality is needed to align objectives, plans and instruments.





KEY ELEMENTS NEEDED FOR PROGRESS

KEY ELEMENTS FOR PROGRESS: POLICY, REGULATORY AND COORDINATION

Policy and Regulatory Framework to stimulate households in the transition

- **Support the anti-smog regulations in place and extend to remaining voivodeships.** ASRs in place in 13 voivodeships that have the potential to stimulate heat source replacement. ASR deadlines are swiftly upcoming, and decisive campaigns – and potentially transition strategies – will be needed to meet these ambitious timelines.
- **Strengthen enforcement and inspections at a municipality level** – to support regulations that restrict the use of dirtier fuels and heating systems.
- **Discourage coal use for SFBs** e.g., stricter restrictions on those who can apply for eco-coal under CAPP (e.g., target to only lower-income, SFBs without viable access to gas, DH), or incentivize cleaner options (e.g., dirty fuel tax, higher subsidies for cleaner alternatives for Part 2, ban sale of coal/coal boilers).

Coordination and addressing policy gaps

- Set-up **inter-ministerial committee** to coordinate energy policies/programs (NECP, LTRS, CAPP)
- Address **policy gap for energy bills support** to vulnerable SFBs to transition to clean fuels, either through modifying existing programs or establishing a “warm homes” scheme.

KEY ELEMENTS FOR PROGRESS: MUNICIPALITY ENGAGEMENT AND OUTREACH

Continued engagement with municipalities — linked to regional coordination

- **Part two set up important channels:** strengthening municipality engagement and integrating knowledge of social assistance structures on verification.
- Need **continued engagement with municipalities** to increase those with formal agreements will strengthen this channel of engagement.
- Consider **other options to support municipal participation** in Program (e.g., outreach, application assistance, enforcement) and identify training, staffing, resource (e.g., eco-managers, financial support).

Program Outreach & Communication Campaigns

- Advance a **continuous communication and outreach strategy** at national, regional and local level
 - Awareness of regulations/obligations for SFBs – and their timelines.
 - Impact of heating sources, benefits from health perspective, solution includes all SFBs
 - Behavioral change elements will have to be included
- **Training for commercial banks, contractors, municipalities**, etc.

KEY ELEMENTS FOR PROGRESS: INSTITUTIONAL DEVELOPMENT STRUCTURES AND LOW-INCOME PROGRAM



Institutional Development Structures

- Enhance **program monitoring, evaluation and oversight** functions, including with **program indicators, targets and milestones**
- Improve **social aspects**, including public consultations and participation, strengthening review of grievance mechanisms, gender aspects, annual social impact and satisfaction survey
- Introduce **program guides and training** to support implementation, share experiences/lessons
- **Program guidelines available on the online platform** (installation procedures, preferred design elements, building standards, hazardous waste mgmt./disposal, other environmental requirements)



Low-income program

- **Missing “pillar” of CAPP** — will not be filled by the Stop Smog Program (SSP) in current form.
- CuR4 work and report proposes detailed design and roles for different actors.

FOR PART 1 BENEFICIARIES: COMMERCIAL BANKS ACTING AS ONE-STOP-SHOPS IN CAPP ARE IMPORTANT TO ACCELERATE PROGRAM PROGRESS

Rationale for commercial bank participation

- Use commercial **banks' distribution channels, client base**, and ability to provide **co-financing**
- **Simplify the process for beneficiaries** through commercial bank acting as a **one-stop-shop** for loans and subsidies

One-stop-shop concept

1. **SFB owners submit a CAPP subsidy application together with a loan request** to participating bank branches
2. **Commercial banks provide loans** to SFB owners for implementation of boiler replacement and thermo-modernization. **A portfolio guarantee covers 80% of the outstanding loan principal under CAPP.**
3. **WFOŚiGWs approve grant applications and channel grants directly to commercial banks** for repayment of the loan

Steps for commercial bank scheme

1. **MoU signed between PBA and NFOŚiGW and five working groups advance work** on key aspects: Legal agreement, CAPP guarantee, CAPP grant application, IT processes, and training for participating banks.
2. **Recruitment of commercial banks**
3. **NFOS and BGK sign guarantee agreement**
4. **Launch of IT platform**
5. **Launch of commercial bank scheme** (Mid-2021)



SCALABLE LOW-INCOME PROGRAM

A SCALABLE LOW-INCOME PROGRAM IS PROPOSED AS PART OF CAPP

Program scope

- A **national program** targeting the **~1.1 million low income and socially vulnerable SFB households** to support boiler replacement and thermo-modernization

Principles of the low-income program

- NFOŚiGW operates **one integrated program** to cover **all income segments** to avoid parallel implementing structures, consistent with the transfer of the SSP from MoD to MoCE
- **Use of existing CAPP implementation structure** and procedures (NFOŚiGW and WFOŚiGWs remain responsible for the overall implementation) **with adjustments** to serve the low-income segment. Adjustments would include **two suggested additional program stakeholders**:
 - Private sector **program operators** hired by WFOŚiGWs
 - **Trainings** organized/procured by NFOŚiGW to train program operators and contractors
- **Remove the burden** of financing and implementation of the low-income program **from municipalities**, which was one of the bottlenecks for scale-up
- **Address the key barriers** that prevent **low-income SFB owners** from participating in the program (see next slide)

THE LOW-INCOME PROGRAM NEEDS TO ADDRESS KEY BARRIERS FACED BY LOW-INCOME SFB OWNERS

Key barriers: SFB owners have...

Suggested program elements to address barriers

...low financial means

- Limited ability to co-finance
- Low capacity to pre-finance investments
- Higher subsidy requires eligibility checks

- **Higher grant subsidies** (90%)
- **Contractors** can **provide pre-financing** of investments and subsidy is directly paid by WFOŚiGWs to contractors upon completion
- **Municipalities** carry out **eligibility checks** of beneficiaries based on income or social assistance receipt (similar mechanism to CAPP 2)

...lower capacity to access the program

- Lower awareness about program
- Limited capacity to fill out applications and determine measures

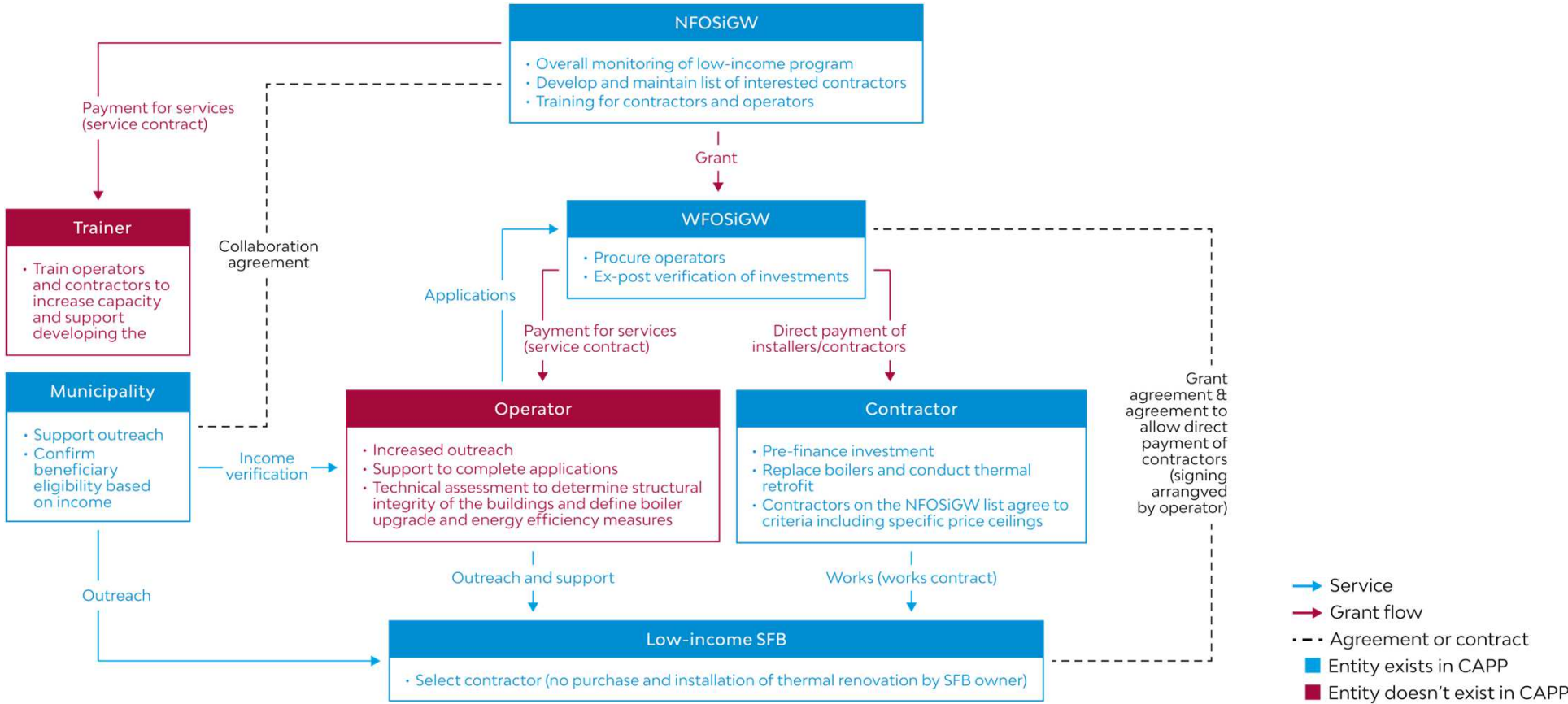
- **NFOŚiGW, operators, and municipalities** provide **increased outreach**
- **Program operators** hired by WFOŚiGWs explain program offerings and **assist in completing applications**
- **Program operators** carry out **technical assessments** to assess structural integrity of buildings, define measures, and provide cost estimates

...lower capacity to implement measures

- Limited capacity to select and supervise contractors
- Lower incentive for SFB to select best value due to high subsidies

- **NFOŚiGW** provides **list of interested contractors** from which beneficiaries may select (contractors meet criteria including reference prices)
- **NFOŚiGW organizes training for contractors** to improve their capacity and quality of works

THE LOW-INCOME PROGRAM WOULD BE FULLY INTEGRATED INTO CAPP — WITH ADJUSTMENTS TO SERVE LOW-INCOME HOUSEHOLDS



RISKS SPECIFIC TO THE LOW-INCOME SEGMENT NEED TO BE ADDRESSED

Key risks

Potential increase in heating bills after boiler upgrade

Switching from old solid fuel boilers (fueled by trash and low-quality fuels) to clean options can increase heating bills. Current energy/housing support does not cover needs. This may delay investments/reduce uptake.

Low participation rates:

Limited awareness about program and fear of heating bills impact could result in low participation rates

Limited co-financing:

Low-income households may not have access to financing to cover remaining balance of investment cost

Limited number of program operators

In the beginning, there may be an insufficient number of private sector operators capable to fulfill the operator role

Mitigation measures

- **Extend operational expenditure support**, to segments in need, through reforming existing programs or establishing a 'Warm Homes' program to support clean fuel
- **Incentivize thermo-modernization** together with boiler upgrades to limit or offset the increase in heating bills
- **Increased outreach activities** municipality level information events, use existing channels e.g. social workers.
- Provide and build awareness of **heating bills support**
- **Leverage municipal funds** to support owners cover required co-financing, depending on existing local programs
- NFOŚiGW organizes **trainings for (potential) operators** to help build capacity in the market

The detailed design of the low-income scheme needs to be completed and agreed, with a launch ideally in 2021.

CONCLUSIONS

Policy support to enable demand

Policy and regulatory instruments—from ASR strengthening to thermal renovation mandates to improved energy social assistance schemes—are needed to drive more SFB owners to join CAPP.



Enhancements to CAPP

Continued enhancements to CAPP administration—annual planning, monitoring and evaluation, outreach and training—will improve effectiveness.



Launch commercial bank component

Finalize agreements with commercial banks and BGK to introduce guaranteed loans alongside CAPP subsidies.



Launch scalable low-income component

Develop and launch a national, scalable low-income component with higher subsidy levels and additional technical assistance.



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