# POLAND CATCHING-ÙP REGIONS

# TOWARDS ROBUST, SCALABLE AND INCLUSIVE CLEAN AIR PROGRAM FOR ALL

December 7<sup>th</sup> 2020 Presenters: Reena Badiani-Magnusson | Jas Singh | Aditya Lukas

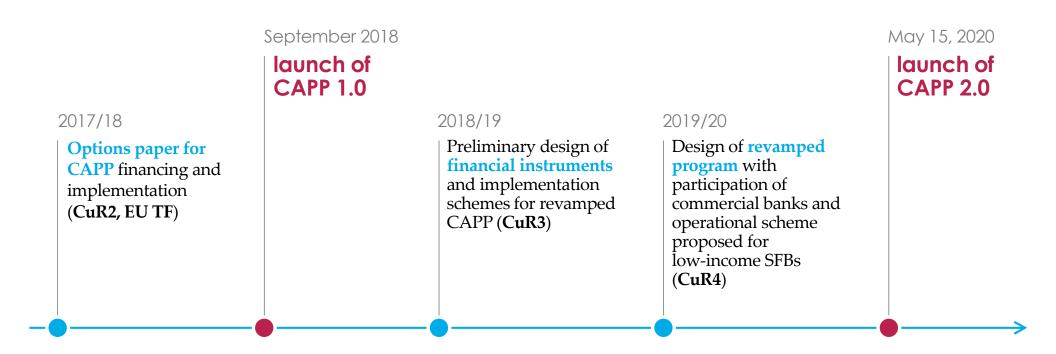








### TIMELINE OF WORLD BANK SUPPORT FOR CAPP THROUGH CATCHING-UP REGIONS INITIATIVE, FINANCED BY EC, AND KEY MILESTONES



## 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

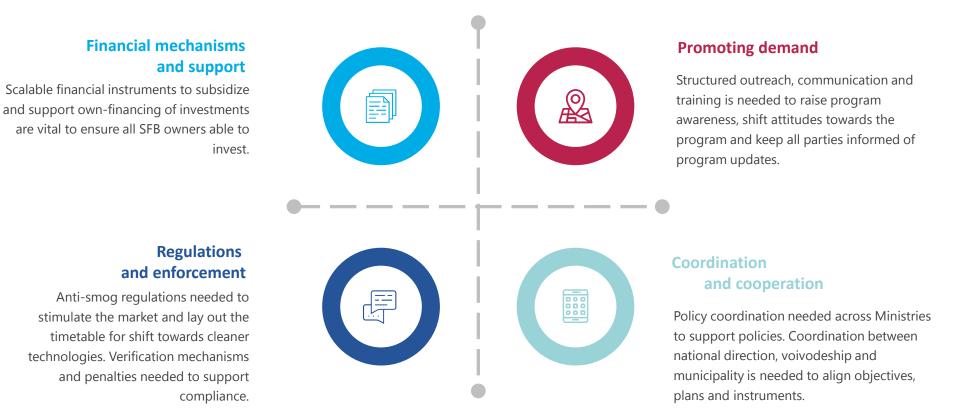
- Market assessment of operator structures.
- Engagement with potential operators on capacity, willingness and conditions to participation. Limitations to their participation also to be identified.
- Proposed mechanisms

# 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	<ul> <li>Middle and high income – approximately 1.7m Single Family Buildings (SFBs)</li> <li>Predominantly 30% investment grants, 45% for higher efficiency boilers.</li> <li>Pending important element of the May 15<sup>th</sup> reform: launch of commercial bank products</li> </ul>	
Part 2 CAPP	<ul> <li>Lower-income (&lt;1400 PLN) – approximately 1.5m buildings</li> <li>60% grants for both standard and higher efficiency boilers. Available since October 21st 2020 with support from municipalities for income verification.</li> <li>Self-direction of households compromised by lack of clear division between CAPP and SSP.</li> </ul>	
Low income and socially vulnerable	<ul> <li>Missing pillar on the national level: incomplete and urgently needed in 2021</li> <li>Despite extensive effort to increase uptake and incorporate municipality views into reforms, Stop Smog Program has limited municipality to date – 7 municipalities, 1027 SFBs.</li> <li>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.</li> </ul>	

# CAPP SCALE-UP REQUIRES HOLISTIC APPROACH

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





# 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



- 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)



- 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 thermomodernization. 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

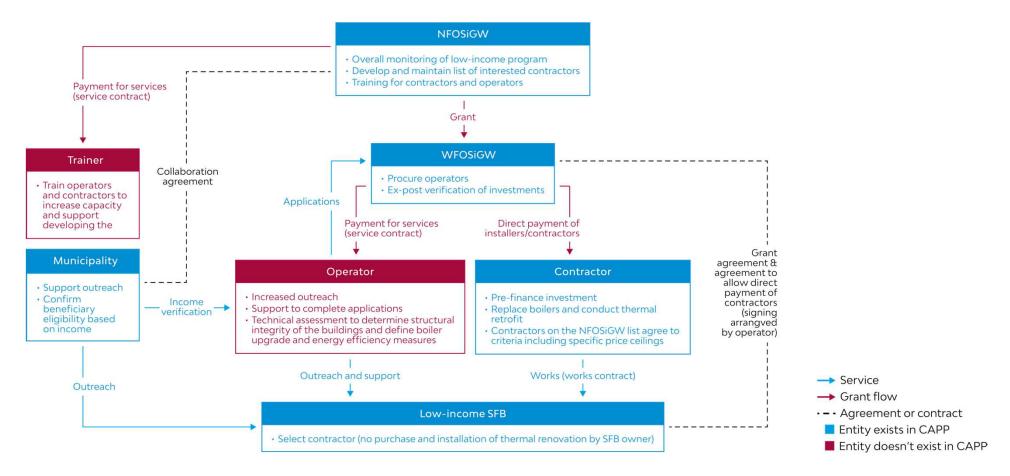
#### Principles of the low-income program

- 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 scaleup
- 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	<ul> <li>Limited ability to co-finance</li> <li>Low capacity to pre-finance investments</li> <li>Higher subsidy requires eligibility checks</li> </ul>	<ul> <li>Higher grant subsidies (90%)</li> <li>Contractors can provide pre-financing of investments and subsidy is directly paid by WFOŚiGWs to contractors upon completion</li> <li>Municipalities carry out eligibility checks of beneficiaries based on income or social assistance receipt (similar mechanism to CAPP 2)</li> </ul>	
lower capacity to access the program	<ul> <li>Lower awareness about program</li> <li>Limited capacity to fill out applications and determine measures</li> </ul>	<ul> <li>NFOŚiGW, operators, and municipalities provide increased outreach</li> <li>Program operators hired by WFOŚiGWs explain program offerings and assist in completing applications</li> <li>Program operators carry out technical assessments to assess structural integrity of buildings, define measures, and provide cost estimates</li> </ul>	
lower capacity to implement measures	<ul> <li>Limited capacity to select and supervise contractors</li> <li>Lower incentive for SFB to select best value due to high subsidies</li> </ul>	<ul> <li>NFOŚiGW provides list of interested contractors from which beneficiaries may select (contractors meet criteria including reference prices)</li> <li>NFOŚiGW organizes training for contractors to improve their capacity and quality of works</li> </ul>	

# 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	Mitigation measures
<b>Potential increase in heating bills after boiler upgrade</b> 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.	<ul> <li>Extend operational expenditure support, to segments in need, through reforming existing programs or establishing a 'Warm Homes' program to support clean fuel</li> <li>Incentivize thermo-modernization together with boiler upgrades to limit or offset the increase in heating bills</li> </ul>
<b>Low participation rates:</b> Limited awareness about program and fear of heating bills impact could result in low participation rates	<ul> <li>Increased outreach activities municipality level information events, use existing channels e.g. social workers.</li> <li>Provide and build awareness of heating bills support</li> </ul>
<b>Limited co-financing:</b> Low-income households may not have access to financing to cover remaining balance of investment cost	• Leverage municipal funds to support owners cover required co-financing, depending on existing local programs
Limited number of program operators In the beginning, there may be an insufficient number of private sector operators capable to fulfill the operator role	<ul> <li>NFOŚiGW organizes trainings for (potential) operators to help build capacity in the market</li> </ul>

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

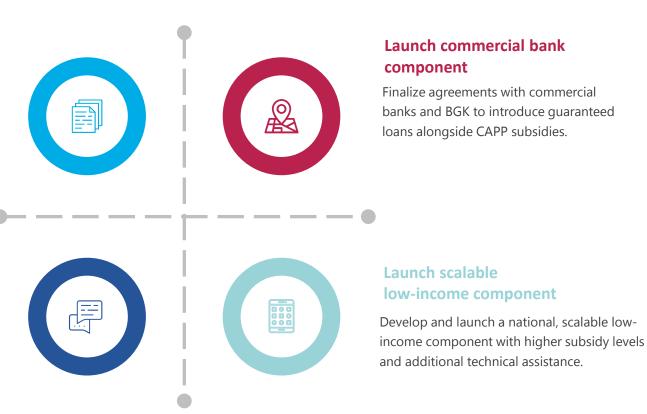
# CONCLUSIONS

# 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.



# CONCLUSIONS



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.



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



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



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

#### **Presenters:**

Jas Singh: jsingh3@worldbank.org Reena Badiani-Magnusson: rbadiani@worldbank.org Aditya Alexander Lukas; alukas@worldbank.org