

Green Investment Scheme in Poland



MINISTRY
OF THE ENVIRONMENT



National Fund for Environmental
Protection and Water Management



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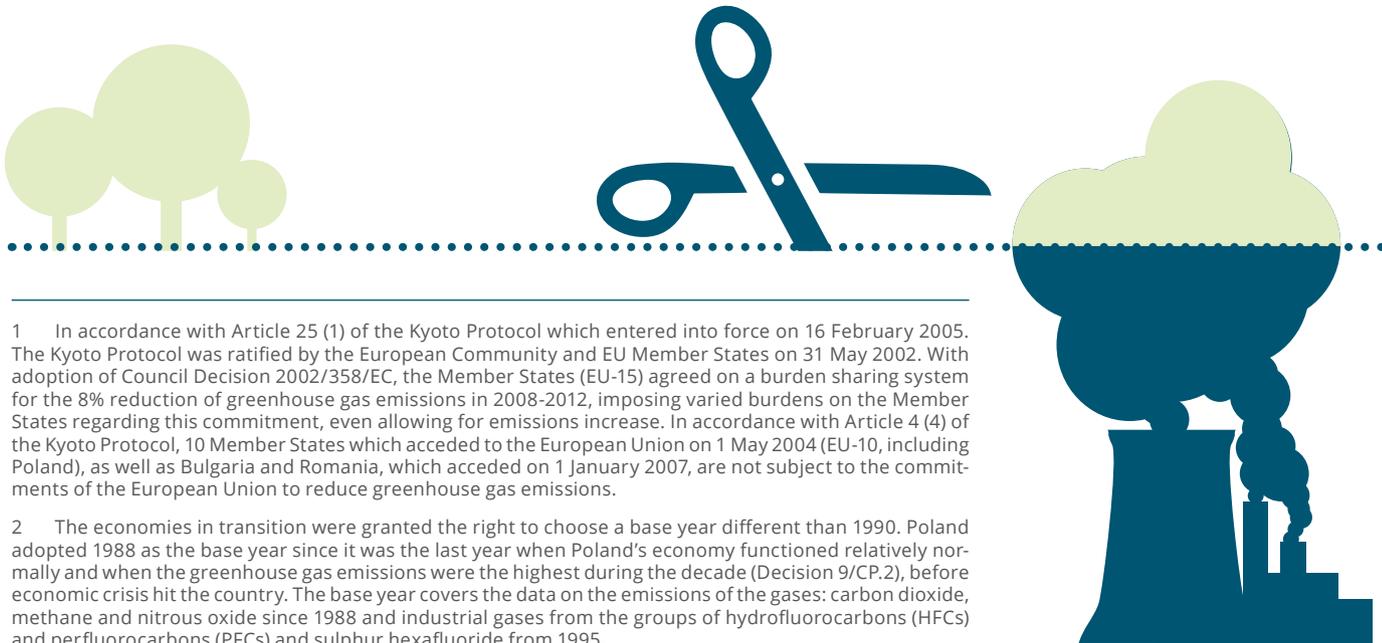
Introduction

On 15 July 1998, Poland signed the Kyoto Protocol then ratified the Protocol on 13 December 2002¹. As a Party to the Kyoto Protocol, Poland has made a commitment to reduce greenhouse gas emissions by 6% in the period 2008-2012. By 2007, Poland achieved much greater emissions reduction of 29%, comparing to the base year².

Poland's decision to ratify the United Nations Framework Convention on Climate Change (UNFCCC) resulted from the political will to become involved in the international process of the agreed action to tackle climate change, and to take individual responsibility for the processes causing such a change. Article 17 of the Kyoto Protocol formed the possibility of International Emissions Trading using Assigned Amount Units (AAU).

In addition to Poland, countries which may benefit due to AAU amount are: Russia, Ukraine, the Czech Republic, Hungary, Slovakia, Bulgaria, Latvia, Romania, and Estonia.

Russia and Ukraine have the largest potential of AAU amount. Poland possesses the third largest amount of AAU in the world.



1 In accordance with Article 25 (1) of the Kyoto Protocol which entered into force on 16 February 2005. The Kyoto Protocol was ratified by the European Community and EU Member States on 31 May 2002. With adoption of Council Decision 2002/358/EC, the Member States (EU-15) agreed on a burden sharing system for the 8% reduction of greenhouse gas emissions in 2008-2012, imposing varied burdens on the Member States regarding this commitment, even allowing for emissions increase. In accordance with Article 4 (4) of the Kyoto Protocol, 10 Member States which acceded to the European Union on 1 May 2004 (EU-10, including Poland), as well as Bulgaria and Romania, which acceded on 1 January 2007, are not subject to the commitments of the European Union to reduce greenhouse gas emissions.

2 The economies in transition were granted the right to choose a base year different than 1990. Poland adopted 1988 as the base year since it was the last year when Poland's economy functioned relatively normally and when the greenhouse gas emissions were the highest during the decade (Decision 9/CP.2), before economic crisis hit the country. The base year covers the data on the emissions of the gases: carbon dioxide, methane and nitrous oxide since 1988 and industrial gases from the groups of hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs) and sulphur hexafluoride from 1995.

International emissions trading³

The conditions which have to be met by a country in order to participate in the International Emissions Trading are the following:

- be a Party to the Kyoto Protocol;
- calculate an assigned amount of greenhouse gas emissions in accordance with the relevant requirements;
- have a National Emissions Inventory System in place;
- have a National Registry in place;
- meet the requirements on annual emissions reporting and inventories; and
- meet the additional requirements on assigned amount reports.

Both, the reports on the national inventories of greenhouse gas emissions and removal by carbon sinks, as well as the reports called “national communications” developed for the purposes of the UNFCCC Convention and the Kyoto Protocol, are subject to review by international teams of experts/auditors.

The Polish Green Investment Scheme

Legal basis

The Polish Government introduced **the Act of 17 July 2009 on the System to Manage the Emissions of Greenhouse Gases and Other Substances**, which came into force on 18 September 2009. The Act was amended by **the Act of 12 December 2012**, which came into force on 14 February 2013. The Act established the Green Investment Scheme (GIS) – a mechanism of AAU sale, under which the Poland guarantees that the proceeds are used for environment protection purposes. An implementation structure set out by the Act ensures the credible and effective management of the financial resources available within the GIS. The key building block within the GIS is the National Fund for Environmental Protection and Water Management, a state agency which plays the role of the National GIS Operator. Moreover, the Act sets a framework for selection, appraisal and monitoring of GIS co-financed projects.

Each country has to meet the certain conditions to take part in International Emissions Trading (art. 17 of the Kyoto Protocol) using the units provided in the Protocol, including AAU.

On 29 April 2008, Poland met these requirements after 16 months since the submission date of the Report on the determination of Poland's Assigned Amount, developed for the purposes of the Kyoto Protocol.



³ In accordance with the provisions of Decision 11/CMP.1, which sets out the principles and guidelines for International Emissions Trading (IET) under the Kyoto Protocol (FCCC/KP/ CMP/2005/8/Add.3).

National GIS Operator

Established in 1989, the National Fund for Environmental Protection and Water Management is supervised by Minister of the Environment. The Fund was set up to manage public resources for environmental projects financing. The financial resources managed by the Fund are fees for the use of the environment and administrative fines, as well as proceeds obtained from product charges⁴.

The tasks of the Fund as the National GIS Operator include:

- Management of the call for applications for co-financing with the proceeds collected at the Climate Account and review of the applications;
- Preparation of a ranking list of programmes and projects pre-qualified for co-financing with the proceeds collected at the Climate Account;
- Submission of the lists of costs pre-qualified for refinancing with the resources collected at the Climate Account, to the Minister of the Environment;
- Supervision of the implementation of programmes and projects and assessment of the environmental effects which the programmes and projects have achieved;
- Preparation of the reports required under the contracts on the sales of AAU and submission of the reports to the Minister of the Environment;
- Arranging technical assistance to potential beneficiaries;
- Carrying out promotion and information activities related to the GIS;
- Monitoring of the results related to the avoidance or reduction of greenhouse gas emission under the GIS;
- Monitoring of the beneficiaries' progress in the implementation of programmes or projects co-financed with the proceeds collected at the Climate Account;
- Maintaining a list of programmes and projects co-financed with the proceeds collected at the Climate Account and with other resources of the National Fund or of the provincial funds, which costs were refinanced with the resources collected at the Climate Account;
- Monitoring of use of the proceeds by the beneficiaries.

The Minister of the Environment supervises the implementation of tasks related to the GIS through the National Operator. The National Operator monitors and controls the use of financing provided to the beneficiaries and the implementation of the signed grant agreements. The National Operator may request that the beneficiary immediately return the whole or part of the resources awarded under the GIS or



⁴ The product charges are collected pursuant to the regulations on entrepreneurs' obligations regarding the management of certain types of waste and, on product and deposit charges.

suspend the payment of successive tranches due, if the National Operator finds that the resources obtained by the beneficiary are not being used in accordance with the terms set out in the respective grant agreement. The National Operator reports to the Minister of the Environment on the implemented projects or programmes and the achieved reduction of greenhouse gas emissions.

Climate Account

The proceeds obtained from the AAU sales, are not the revenues of the State budget and may be disbursed only for the activities enumerated by the Act, i.e. activities related directly or indirectly to climate protection. In order to guarantee that the proceeds originating from the sales of AAU do not blend with any other revenues of the Fund, the Act provides for a separate account, the Climate Account, to be set up at the Fund. It is possible to set up separate sub-accounts for each individual transaction within the Climate Account to ensure the maximum transparency of the management of proceeds obtained from individual AAU purchase transaction. Moreover, establishment of the Climate Account ensures the flexibility of the GIS in terms of the liquidity of financial resources, without any time constraints, that are typical for state's budget policy. The Climate Account is managed by the Fund on charge-free basis.

Consultative Council

The Act provides establishment of a Consultative Council, an advisory body to the Minister of the Environment, regarding the operation of GIS. The tasks of the Consultative Council include issuing opinions on the following:

- the rules of the call for applications for the co-financing with the proceeds collected at the Climate Account;
- the programmes and projects pre-qualified for co-financing with the proceeds collected at the Climate Account.

The Consultative Council consists of representatives of: Ministry of the Environment, Ministry of Economy, Ministry of Finance, Ministry of Agriculture, Ministry of State Treasury, Ministry of Infrastructure, Ministry of Science and Higher Education and the National Centre for Emissions Management. The operational rules of the Consultative Council are set in a Regulation issued by the Minister of the Environment.

GIS projects

The Act provides for the proceeds generated from the sales of AAU to be used to:

- co-finance in the territory of the Republic of Poland the implementation of environmental programmes or projects, the measures of adaptation to climate change, other measures in the field of air protection;



- refinance programmes or projects costs covered either by the National Fund for Environmental Protection and Water Management or provincial environmental funds, for co-financing environmental programmes or projects.

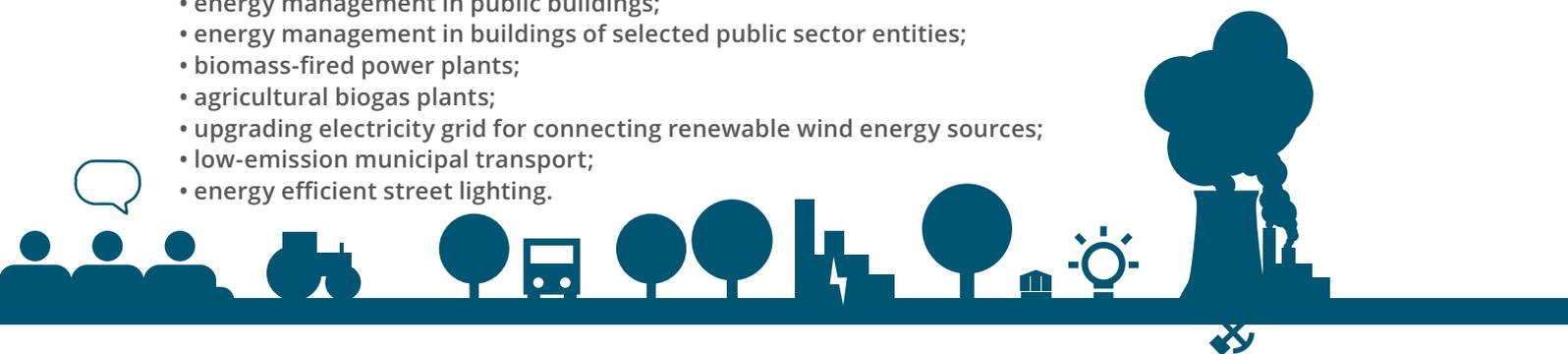
The programmes or projects referred to above shall be implemented in the following areas:

- improving energy efficiency in various sectors of the economy;
- improving coal use efficiency, including the application of clean coal technologies;
- replacing fuels by low-emission ones;
- avoiding or reducing greenhouse gas emissions in the transport sector;
- using renewable energy sources;
- avoiding or reducing methane emissions through its recovery and utilisation in mining, waste and sewage management and agriculture as well as for energy generation;
- carrying out carbon sequestration;
- taking any other measures aimed at the limitation or avoidance of national greenhouse gas emissions or CO₂ removals and adaptation to climate change;
- carrying out research and development activities in the field of the use of renewable sources and innovative environmentally friendly technologies;
- carrying out educational activities, including training courses to support the fulfillment of Poland's commitments under the Kyoto Protocol.

In accordance with the Act, the Council of Ministers issued on 20 October 2009 a Regulation on types of programmes and projects to be implemented under the GIS, in the areas set out in the Act. The programmes and projects implemented within the GIS will be set by the provisions of the negotiated AAU purchase agreements, while specific measures to be taken will be identified for each contract individually.

Till the end of 2013, seven priority programmes were adopted in the area of:

- energy management in public buildings;
- energy management in buildings of selected public sector entities;
- biomass-fired power plants;
- agricultural biogas plants;
- upgrading electricity grid for connecting renewable wind energy sources;
- low-emission municipal transport;
- energy efficient street lighting.



Procedure for the selection of projects/programmes proposals for GIS financing

The National Operator selects applications for co-financing of eligible projects/programmes on a competitive basis. The National Operator publishes a call for applications in a daily newspaper with nationwide coverage and on its own website. The National Operator has set out the rules of procedure for the call for applications, including the requirements arising from the concluded AAU purchase agreements, and makes the rules publicly available through its own website. The rules of procedure for the call for applications are approved by the Minister of the Environment.

The rules comprise of the following:

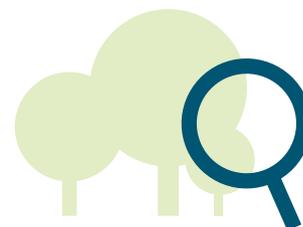
- an indication of the entities eligible to seek co-financing from the proceeds gathered at the Climate Account;
- the selection procedure or procedures and the criteria for assessing the applications, depending on types of proposed projects and programmes;
- the deadlines for the submission of applications and the assessment of the proposed programmes and projects;
- an indication of the limit of the resources for co-financing;
- an indication of the possibility to allocate the unused amount of the limit to co-financing reserve programmes or projects;
- the formats of application forms.

Taking into account the results of the selection process and the opinion of the Consultative Council, Minister of the Environment approves the ranking list of programmes and projects for GIS co-financing or refuses to approve the individual programmes or projects placed on the ranking list. Minister of the Environment publishes the list of the beneficiaries whose programmes or projects proposals have been accepted for GIS co-financing on the Ministry of the Environment website, together with the list of the approved programmes and projects.

The National Operator signs a grant agreement with each of the beneficiaries whose proposed programs and/or projects have been approved or signs an agreement with the beneficiary and the bank which extends a credit to the beneficiary for the implementation of the approved programme or project.

GIS implementation monitoring system

The GIS framework sets a credible system for monitoring the programmes and projects being implemented. It is mandatory for the National Operator to monitor implementation of the programmes or projects co-financed with the proceeds collected at the Climate Account, allocation of the proceeds, including refinancing the costs,



and the results obtained in relation to the avoidance or reduction of greenhouse gas emission under the GIS. Based on the above mentioned information, the National Operator prepares a report summarizing the programmes and projects being implemented and the contributions to the greenhouse gas emission reductions achieved. The report is submitted to the Minister of the Environment on the annual basis. National Operator is also obliged to prepare, every quarter of the year, the composite reports on the progress in the implementation of programmes or projects co-financed with the proceeds collected at the Climate Account and their allocation, including to refinancing the costs.

Rodzaje umów sprzedaży jednostek przyznanej emisji

Minister of the Environment is the authority competent to conclude the contracts on the sales of AAU on behalf of the State Treasury of the Republic of Poland.

Concluded Contracts

Sales of the AAU amount is very important for the Ministry of the Environment and the Government of the Republic of Poland. Until the end of first quarter of 2014 the Minister of the Environment concluded ten contracts for the sale of AAU all together worth over EUR 190 million. The first contract, with European Bank for Reconstruction and Development (EBRD), acting on behalf of the Government of Spain was concluded in November 2009. Another contract with EBRD, acting on behalf of the Government of Ireland, was signed in May 2010. Contracts with Japanese partners representing the private sector were concluded in March 2010 and April 2010, respectively. Next contract was signed with New Energy and Industrial Technology Development Organization (NEDO) in December 2010. Two contracts with International Bank for Reconstruction and Development (World Bank), acting on behalf of Spanish Carbon Fund and Carbon Fund for Europe were concluded in October 2011. Consecutive contract with Ministry of Agriculture, Food and Environment of Spain representing the Government of Spain was signed in October 2012. The last two contracts with International Bank for Reconstruction and Development (World Bank), acting on behalf of Spanish Carbon Fund and Carbon Fund for Europe were concluded in November 2012. The Ministry of the Environment continues negotiations with other potential buyers.

Civil-law contract

Agreements may be concluded between the Republic of Poland and an entity authorized by the state as a civil-law contract. An agreement on the sale or purchase of AAU in the form of the civil-law contract concluded by the Minister of the Environment requires an approval by the Council of Ministers.

An international agreement⁵

Agreements between the Republic of Poland and the authorized state may be concluded as international agreements, pursuant to the Polish Act of 14 April 2000 on International Agreements (Official Journal of the Laws, No. 39, item 443, as amended).

⁵ In this procedure, the agreement is not subject to ratification, since it does not satisfy the provisions laid down in Article 89 (1) and Article 90 of the Constitution of the Republic of Poland. The Republic of Poland will be bound by the agreement pursuant to Article 13 (1) of the Act of 14 April 2000 on International Agreements (Official Journal of the Laws, No. 39, item 443; 2002, No. 216, item 1824).



GIS Projects Implementation

16 Calls for Proposals were placed by the GIS Operator until the end of 2013. All announcements and results of competition procedure were published at www.nfosigw.gov.pl.

Grant agreements were signed with more than 300 beneficiaries by the end of March 2014, on amount of:

- EUR⁶ 113.2 million (PLN 475.3 million) for energy management in public buildings and for energy management in buildings of selected public sector entities programmes;
- EUR 11.7 million (PLN 49.3 million) for agricultural biogas plants programme;
- EUR 3 million (PLN 12.4 million) for biomass-fired power plants programme;
- EUR 14.9 million (PLN 62.4 million) for upgrading electricity grid for connecting renewable wind energy sources programme;
- EUR 4.2 million (PLN 17.8 million) for energy efficient street lighting.

More than 200 projects on energy management in public buildings and energy management in buildings of selected public sector entities programmes have been completed. Among them are: nurseries, kindergartens, primary schools, high schools, colleges, hospitals, centres of culture. The recent Call for Proposals procedures conducted by NFEPWM to seek projects to be financed under energy efficient street lighting and low-emission municipal transport resulted in identification of 33 and 17 projects respectively, all of which are expected to be completed by the end of 2015.

GIS Operator shall disburse approx. 32.2 million EUR (PLN 135.4 million) on greening activities until the end of 2014, and 34.8 million EUR (PLN 146.3 million) on greening activities until the end of 2015.

Advantages of the Green Investment Scheme in Poland

Guarantee for the greening of resources

Poland guarantees the greening of the financial proceeds generated from the sales of AAU, by determining the activities for which these proceeds may be expended: either co-financing the programmes or projects or for refinancing the programmes or



⁶ EUR 1= PLN 4.1990 exchange rate as of March 24, 2014 www.nbp.pl

projects cost covered by the National Fund for Environmental Protection and Water Management (NFEPWM) or provincial environmental funds.

Reliable implementation set-up

The proceeds generated from the sales of AAU are directed through the NFEPWM which plays the role of the National GIS Operator. Therefore the proceeds do not form the revenue of the State budget what is guaranteed by the Polish law.

Sub-accounts within the Climate Account

GIS is designed to ensure the transparent and effective management of proceeds from the sales of AAU. In order to enable the purchasing State/entity to monitor the disbursement of proceeds from the AAU sales, separate sub-account (dedicated for individual transaction within the Climate Account) is an option offered to a Purchaser.

Credible system of project implementation monitoring

It is mandatory for the National Operator to monitor implementation of programmes or projects co-financed with the proceeds collected at the Climate Account, allocation of the proceeds, including refinancing the costs, and the results obtained in relation to the avoidance or reduction of greenhouse gas emission under the GIS.

Purchaser responsive

The aim of the team negotiating AAU sales transactions is to meet the purchasers' needs with regard to the greening of the AAU and the selection of areas in which programmes and projects are to be implemented, using the proceeds from a particular transaction. During the negotiations, mutual priorities are established in accordance with a predetermined strategy.

Poland has achieved the substantial reduction in greenhouse gas emissions resulting in considerable amount of AAU.

Poland is committed to implement an efficient and effective Scheme to ensure further reduction and/or limitation of greenhouse gas emissions in order to meet the emission reduction targets set by climate policies.

POLISH GREEN INVESTMENT SCHEME – THE SYSTEM YOU CAN TRUST!



