# Green Fiscal Stimulus: Poland

## Executive summary

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# Executive summary

- The current recession should not discourage efforts towards achieving long-term low-carbon economic growth.
- We recommend the Green Fiscal Stimulus to be included as part of Poland's Tarcza Antykryzysowa (Anti-Crisis Shield). Program Inwestycji Publicznych (Public Investment Program; PIP), announced by the Polish government should implement projects with a low or at least neutral environmental impact in each of its areas and, thus, fit into the European Green Deal.
- Investments that stimulate the economy under the PIP are to amount to PLN 30 billion, i.e. approximately 1.3% of Poland's 2019 GDP. This is not enough given the scale of the challenge and significantly less in comparison with Germany which proposes to allocate almost 3% of GDP for the green fiscal impulse. Therefore, the size of PIP should be doubled to at least PLN 60 billion, i.e. 2.6% of Poland's GDP in 2019.
- Investments in environmentally friendly solutions create more jobs and better development opportunities for domestic companies than investments in high-carbon sectors of the economy. Moreover, spending on combating climate change generates additional benefits by reducing air pollution and improving energy security.
- The experience of green fiscal stimuli implemented after the financial crisis a decade ago, e.g. by South Korea, shows that they should rely on well-functioning public policies. This is a prerequisite for their effectiveness.
- Poland has launched a number of initiatives which could form the basis of Green Fiscal Stimulus, though they would require reorganization. These include such programs as Czyste Powietrze, Mój Prąd, and Fundusz Niskoemisyjnego Transportu (Clean Air, My Electricity, and Low Emission Transport Fund).
- Investments under the Green Fiscal Stimulus should be suitable, timely, and temporary. The ability to quickly create jobs and combat energy poverty should be considered, along with the effectiveness of reducing greenhouse gas emissions and improving air quality.
- In this context, actions with positive impact on economic growth once the hibernation period ends, are; (i) the thermal efficiency improvement of single-family houses and investments in individual heating and (ii) the development of renewable energy sources, in particular microgeneration.
- Investments in the above sectors are effective in combating energy poverty which is extremely important due to shrinking household budgets during crises. Moreover, they reduce air pollution, which leads to respiratory diseases and positively correlates with increased mortality following COVID-19 infection.
- To finance the Green Fiscal Stimulus, Poland should establish a program for the issuance of Just Transition Bonds. The program should include an increased issuance of green bonds – already announced for 2020 by the Minister of Finance – and the ICMA-standard sustainability bonds.
- Local authorities should contribute to the implementation and financing of the Green Fiscal Stimulus by issuing their own green and sustainability bonds. Polish government should support such activities through grants covering the costs of issuance such as drafting investment programs and hiring specialised auditors.
- Part of municipal bonds should be made available to local communities in the form of small investment size, retail instruments to finance sustainable projects thereby benefiting communities.
- Bonds issued under the program would also make an excellent investment instrument for Pracownicze Plany Kapitałowe (Employee Investment Plans; PPK).
- The role of Polski Fundusz Rozwoju (Polish Development Fund) in the heating sector should also mean the participation of Fundusz Inwestycji Samorządowych (Local Government Investment Fund) in public-private partnership projects. High corporate governance standards and transparency in the investment process would contribute to reinforcing trust between municipalities and private investors.

# Recommendations

I. We recommend that Program Inwestycji Publicznych (Public Investment Program; PIP) becomes a Green Fiscal Stimulus that will only implement investments with at least neutral environmental impact.

II. The size of the PIP should be doubled to at least PLN 60 billion, i.e. 2.6% of the Polish GDP in 2019.

III. Selected projects should focus on combating climate change thus fitting in with the European Green Deal. Projects with at least neutral impact on the climate should be implemented in all PIP priority areas.

IV. The Green Fiscal Stimulus should, as far as possible, rely on well-functioning public policies. Moreover, the Stimulus should be consistent, so that some of its elements do not contradict others. Local projects should receive priority as drivers of change to support energy transition.

V. In constructing its stimulus, Poland should modify the regular evaluation criteria for public investment schemes to consider the exceptional market conditions: rapidly rising unemployment, the risk of hostile takeovers of domestic enterprises, fluctuations in foreign exchange and stock markets, the limited credit supply of banks, and the limited financing capability of innovative projects by private investors.

VI. We recommend the liberalization of income thresholds in the Czyste Powietrze (Clean Air) program and inclusion of micro and small enterprises among the beneficiaries of the Mój Prąd (My Electricity) program. This is necessary to counteract energy poverty and increase the prevalence of prosumer energy among all the interested.

VII. Bonus offered to municipalities for applications to the Clean Air program should be temporarily increased and made conditional upon the signature of a grant agreement. Municipalities should also be exempted from obligatory contribution to investments under the Stop Smog program. This would incentivize their engagement in environmentally-friendly investments.

VIII. Fundusz Niskoemisyjnego Transportu (Low Emissions Transport Fund) and the E-bus PFR program should extend their offer to additional groups of beneficiaries and reward switching l to low- and zero-emission means of transportation. For this purpose, Poland should use liquidity instruments.

IX. New formulas for financing investments in the transformation of the heating sector and electromobility in public transportation are required to prevent capital-intensive investments from slowing down as tax revenues fall. For one, Polski Fundusz Rozwoju (Polish Development Fund; PFR) and its Fundusz Inwestycji Samorządowych (Local Government Investment Fund) should become more involved in public-private partnerships.

X. Adequate financial resources and rapid implementation of legal changes should be guaranteed to programs within the Green Fiscal Stimulus to accelerate transformation.

**XI.** The Green Fiscal Stimulus should focus on:

- Improvement in energy efficiency in single-family buildings and investments in individual heating,
- Fostering renewables, in particular microgeneration.

These activities have the greatest positive impact on the economy after a period of hibernation and potential to foster just transition. They are effective in preventing energy poverty and reducing air pollution, which leads to respiratory diseases and thus increases mortality following COVID-19 infection.

**XII.** To finance the Green Fiscal Stimulus, Poland should establish a Just Transition Bonds program which would be based on an increased issuance of green bonds and the ICMA-standard sustainability bonds.

**XIII.** This issuance should be repeated in subsequent years, according to the needs of the Stimulus. This publication should serve as the basis for preparation of prospectuses for these financial instruments.

**XIV.** Local authorities should contribute to the implementation and financing of the Green Fiscal Stimulus by issuing their own green and sustainability bonds.

**XV.** Poland should support these initiatives through grants covering the costs of bond issuances, such as preparing investment programs and appointing special auditors.

**XVI.** Part of municipal bonds should be dedicated to local communities in the form of small investment size, retail instruments to finance sustainable projects thereby benefiting communities.

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