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Refining of operation procedures and principles of the National Fund for Environmental Protection and Water Management

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INTRODUCTION

In a sense this paper is a continuation of the material prepared last year for the Regional Environmental Center (REC) in Budapest, which comprehensively described the activity of the main institution financing environmental protection in Poland, the National Fund for Environmental Protection and Water Management

Although only six months has passed since the time the mentioned material was prepared, significant changes that have taken place in the activity of the National Fund cause the need for major modifications and updating of the original contents Those changes have found their reflection in the present version of the paper, written for the conference on the role of environmental funds in the period of economic transition, with an aim to present further experience of the National Fund Moreover, this paper concentrates broader on those important aspects of the Fund's work that might prove most valuable and useful to other institutions of similar character and profile, especially for those that are being established or has just begun their activity - both in Poland and abroad Extensive information about procedures utilised by the Fund might be of interest to the Fund's potential clients - borrowers and grant beneficiaries

FURTHER GROWTH OF THE FUND'S POTENTIAL

In the said six month period the Fund has not only changed its premises and address but have also introduced changes in its organization and management At present the Fund is supervised by the Supervisory Board consisting of 17 members Its major tasks include

- approval of action plans and lists of priority projects in line with the National Environmental Policy,

- establishment of criteria and principles of granting loans and subsidies and their limits, as well as their final approval in cases involving high value projects (currently over PLZ 5 billion PLZ, i e about US$ 225 thousand),
- approval of annual reports on operation of the National Fund submitted by its Management Board

The Fund's organizational structure reflects the functions performed by this institution, whereas changes introduced in it normally follow from the need to adjust the structure to new tasks assigned to the institution During the five year period of the National Fund's operation the structure has been upgraded on continuous basis and during the last six months its present shape has been significantly modified

The Fund comprises the Management Board and the Office The Management Board consists of the President and his two deputies The Office used to be made up of five specialized, technical units (departments) with profiles which correspond to specific sectors of environmental protection Currently there are six such units, a unit in charge of environmental education has been excluded from the Nature Conservation and Environmental Education Unit, which follows from the Fund's growing interest in environmental education and reflects much better the tasks of both units after the division

Eight other units are of functional character (i e control, legal, economic and financial, accounting, information, administrative and organizational services) Two new units have been operating for the last 18 moths, i e Restructuring of Difficult Loans Department and International Department International cooperation is the area where the most significant changes have taken place, namely incorporation of the Environmental Strategy Management Unit in charge of management of foreign assistance funds for environmental protection, previously operating within a framework of the Ministry of Environmental Protection, Natural Resources and Forestry In October 1994, the Unit was transferred to the National Fund in order to facilitate absorption of those funds

and their better utilization jointly with the core, internal funds Since then, implementation of all foreign assistance programmes, with an exception of "debt-for-environment swap" programs, is carried out by the International Department of the National Fund In particular the unit is managing funds for environmental protection coming from three sources

- PHARE Programme of the European Union,
- the World Bank Programme, and
- bilateral assistance

The Fund employs currently 160 persons This means that the staff has grown significantly in the recent period The number of employees has increased in individual units, the International Department taking the lead (from 5 to 35 employees) Besides, the institution, becoming an owner and manager of the premises had to create a complete administration unit Highly qualified employees - experts and specialists - make up nearly 70 per cent of staff, while over 70 per cent of employees hold a university degree, including ten with scientific research degrees

The units are headed by coordinators appointed from amongst the group of employees with the longest experience in their fields It is the coordinators who present processed loan or grant applications at weekly sessions of the Management Board Principles of the Fund's operation, scope of responsibilities and powers of the Management Board members, units and individuals as well as decision making process are strictly defined in the Fund's Organizational Regulation This Regulation is so far the primary document that describes the way of handling of a project application Works have been finalised on an office instruction, that after obtaining the Management Board approval, will define in detail circulation of information and documents and, subsequently, processing of applications for co-financing The instruction will also contain a list of the Fund's files and define the standard for a general register of projects financed by the Fund

Growth of the National Fund's potential in financial terms is best characterized by figures showing incomes and expenditure of the Fund in 1994
The Fund's accumulated incomes added to 334 4 million USD, 25 per cent more than in the previous year Accumulated expenses reached the level of 224 5 million USD and exceeded the 1993 expenses by 20 per cent The overbalance in incomes over expenses resulted from general difficulties experienced by the majority of enterprises, especially companies and from restricted possibilities of financing of environmental projects In the nearest future this surplus will allow for implementation of projects not restricted by the loan and credit based financing mechanism

DIFFERENT PROJECTS - DIFFERENT CYCLES

Although all projects undertaken by the National Fund are closely related to environmental protection, it is quite difficult to present project cycle procedures in a unified way because of their large diversity One reason for this is that, apart from financing projects from internal funds, the Fund also manages projects in accordance with procedures and requirements of PHARE Programme, the World Bank, and bilateral assistance from 11 countries Expected amount of foreign money to be spent in 1995 account for about 25 per cent of planned internal expenditure, while the number of projects is a high as 200 It is therefore impossible to present all problems and procedures used in relation to a project implementation cycle in a single paper We will thus have to confine our description to the Fund's primary activity, namely financing projects from internal funds, and to focus on a typical, let us say average, project

FIRST COMMUNICATION/INTERACTION

A potential applicant can learn about possibilities for financing of environmental projects by the National Fund on one hand, and about restrictions resulting from

the rules of its operation on the other, from various sources First of all, the number of the Fund's clients is growing and their experience of work with the National Fund is being spread in the course of their normal operation Secondly, the Fund itself has taken up and is developing informational activity in various forms Currently the most important information channel is the cooperation with provincial (voievodship) funds for environmental protection and water management Such collaboration is mutually beneficial as the provincial funds can build on the experience of the National Fund, while the latter can spread information about its own activities Bearing in mind that most potential beneficiaries of the National Fund are also the applicants or borrowers of provincial funds, knowledge of the National Fund's capabilities is passed to them in the course of their application for funding from provincial funds Contact between the National Fund and provincial funds is maintained through participation of employees of the former in management boards of the latter Although session of those management boards are held once in one or two months, contacts are maintained on a regular and permanent basis Experience gained by the National Fund's representatives in the management boards is exchanged during meetings, one of which took place only a few days ago Apart from this the Fund organizes informational sessions for representatives of the provincial funds, as well as specialized training courses focused for example on accountancy system or a new law on public procurements They take place either in the regions or in the training center of the Ministry of Environmental Protection, Natural Resources and Forestry The Fund has also prepared and published in a very large number a brochure containing

- selection criteria of projects for co-funding from the National Fund,
- list of priority projects,
- principles of extension and remission of loans and grants

The brochure can be obtained from each organizational unit of the Fund and is made available on all possible occasions A bulletin "Eko-Finanse" is designed to provide information to the provincial funds and will be soon transformed into a monthly Assisting in publication of numerous books and materials concerning environmental protection, the Fund places on them its logo, which itself is a piece

of information about the type of activity it carries out Significant development of informational activities of the Fund has been noted after the establishment of the public relation/spokesmen unit with two of staff

It should also be added that the Fund's employees often take part in meetings, trainings, conferences and seminars both in the country and abroad, spreading information about the Fund's activity, especially this of special interest to a potential client - how to successfully apply for funds from the National Fund

PROJECT IDENTIFICATION AND APPLICATION PROCESS

In the case of a typical project financed from the National Fund an application process starts at the moment of an application form submission The tendency is however that a project should start much earlier This is particularly true when we have to do with large projects of complicated legal and organizational structure and with participation of foreign partners Up to the last year applications had been prepared in rather optional form, but in line with principles defined in the so called Project Information Card At present there are two standardized forms used depending on the type of investor Both are the forms of application for loan, grant or credit used by the National Fund as well as the Environmental Protection Bank One form is designed for enterprises, the other one for local self-governmental authorities

As it was mentioned in the previous paper, a project to be considered by the National Fund must be listed by the Governor of Province on a provincial priority list The list is made up of projects that are most important and most urgent for implementation in a current year The main criterion is an expected environmental effect but also other circumstances This does not however mean that the project can be automatically implemented, and - from the National Fund's point of view - financed Additional prerequisites, described below have also to be fulfilled

PRE-SCREENING OF APPLICATIONS

Formal submission of applications and their registration takes place at the chancery of the National Fund The document is then passed on to the relevant specialized unit It is worth noting that if a project consist of several components forming separate tasks in the understanding of the National Fund, e g construction of a sewage treatment unit and modernization of a heating system of the same plant, an investor submits two separate applications The Coordinator of the unit directs the application to one of his staff This is usually based on "territorial" criterion - as in the case of the Water Protection Department or on a specialization of experts - such as in the Department of Earth Surface Protection Initial project qualification takes place in the unit which examines whether the documentation is complete and backed up by required appendices Experience shows that documentation is almost never complete and application is usually prepared in an incorrect way, though progress has been noted since the time when applications were based only on the Project Information Cards What is very important at this stage is a cooperation of the National Fund's responsible officer on one hand, and an initiative of the investor on the other Those two factors determine the period in which documentation is completed and the final version of application submitted It has to be said that a significant part of the work is actually done by the Fund's officer who supports the investor

It very rarely happens at this stage that the application is rejected The applicant learns whether his project can be financed (or not) much earlier He also knows all the rules and principles of financing and can make his own decision on whether to submit the application or to elaborate it further and postpone submission

Applications are evaluated on a current basis and the period of appraisal varies from a few days to a few months depending mostly on the quality of application submitted

PROJECT APPRAISAL

The National Fund checks also whether the projects meets the criteria of the Fund's financing and whether it belongs to priority projects In most cases this last condition is already fulfilled as the question about the position on the priority list is also included in the questionnaire, so the Fund checks only whether this statement is true The next aspect evaluated is an environmental effect of the project Assessment of a result of project implementation in terms of environmental impacts is at this stage (and not only this one) the primary task of a specialized technical unit

Some economic and financial aspects, e g whether a financial package is complete are also initially examined This belongs to the competencies of a relevant specialized unit and at this stage is rather a formality, which will be further specified later in the evaluation process A very important element of appraisal is the assessment of costs of the entire project as well as its single components against assumed parameters and technological solutions If there are any reservations in this respect, the project might be not rejected but placed under an "audit" of proposed technological, economic, organizational and financial solutions Money offered by the Fund is too cheap and, what is more, public so it may not be used for overpriced or "oversized" projects In such cases, financing, even promised, may be terminated In the cases where the expected environmental effect is large or there are other important aspects, even not environmental but, for example, social which make impossible the project rejection or cease of financing, additional independent studies are arranged Their aim is to assess the solutions proposed by the investor and to enable the National Fund to work out an independent opinion about them So far, independent studies were commissioned (and financed) by the National Fund Since the beginning of this year, in the cases of loans over 1 25 million USD an independent expert's opinion must be submitted by the investor himself However, this does not exclude any possible additional studies commissioned by the Fund

PROJECT EVALUATION AND SELECTION

Further history of the application (we talk about applications for financing from the National Fund and not for credits from the Environmental Protection Bank), after receiving a positive opinion from a relevant specialized, technical unit, depends on a number of factors

If the application concerns a grant, it is normally processed by the National Fund itself up to the final decision The decision about grant extension is made by the Management Board on the motion of the coordinator of a relevant unit, at the Board's meeting convened usually once a week A grant value normally does not exceed the upper limit above which the decision must be approved by the Supervisory Board, so the decision of the Management Board is in this case final When a grant is higher than 500 thousand PLZ, i e about 210 thousand USD, the final say belongs to the Supervisory Board

If the investor applies for a loan, the procedure adopted depends on its value We should say here, that during five years of its operation the Fund extended about 2 thousand loans and grants Loans accounted for 40 per cent of this figure Currently only a small minority of loans concern projects already finalised The number of projects under implementation and active agreements has been continuously growing placing a cumulative workload on the Fund In the last year the decision was made to transfer a part of the Fund's current tasks to the Environmental Protection Bank The EPB, using its extensive bank networks can administer loans from the National Fund, the value of which does not exceed 8 5 thousand PLZ (i e about 3 5 thousand USD) Higher value loans are still managed by the Fund itself

Loan applications are carefully screened by the Analyses and Marketing Department Analysis is done on the basis of the same rules and methods as apply for bank credits The factors being assessed are economic and financial aspects of both the project and the investor, and the latter's credit standing

against achieved economic effects In the case of town and commune authorities also a capability for the repayment is examined, with the degree of burden placed on the self-governmental budget taken into account An opinion of the Regional Accountancy Chamber is also required to complement this of the National Fund All these assessments lead either to the acceptance of an application or to amendments in its parameters, such as loan value or repayment period

Loan applications below the limit of 3 5 thousand USD are then directed to the relevant branch of the Environmental Protection Bank, while applications of higher value are further processed by the Fund

Economic and Financial Department examines loan repayment securities It goes without saying that each loan has to be secured in the same way as a bank credit The list of possible securities is made available to each potential borrower who can thus prepare this element of procedure before submission of the application

After all the above stages have been passed the application is submitted by the coordinator of a unit, responsible for the entire procedure, to the Management Board The latter makes a decision that must be endorsed by the Supervisory Board, which meets once a month

The decision is made available to the applicant immediately which allows for smooth continuation of the procedure

NEGOTIATIONS AND AGREEMENT

The terms and conditions on which the loan is extended are suggested by the borrower The role of negotiations depends on the degree of precision of financing principles In the cases of more precise criteria and principles of financing, such as maximal loan value, interest rate (defined as ranges), length of a grace period, negotiations concentrate on refining those parameters rather than

on their formulation Full negotiations are, however, carried out in the case of a capital investment of the Fund in a joint-venture with other enterprises

Where loans are concerned, negotiations, in a partial form, are carried out by jointly by officers of the specialized unit in charge of this particular project and Economic and Financial Department Negotiations are finished by signing a protocol stating the terms of the loan extension This stage is finalised by preparation of the agreement The agreement is elaborated jointly by the Economic and Financial Department, Law Department and a relevant technical unit, and signed by both sides On behalf of the Fund the agreement is signed by the president and chief accountant, and on behalf of a borrower by persons listed in the enterprise statutes (this is also checked by the Economic and Financial Department)

IMPLEMENTATION AND MONITORING/FINAL EVALUATION

Project monitoring starts even before the agreement is signed A borrower is required to supply a detailed work programme and financial breakdown of the project This gives a picture of what and when should be done as well as how much it will cost Hence, this is a good basis to control the investment process The above mentioned planning documents have to be approved by the Control Department before the agreement is signed The document gives, among other data, the date when the project should start This is important because the Fund normally does not use advance payments but pays successively for the tasks completed One exception is the first advance payment which accounts for a small percentage of the project value and can be paid directly before commencement of the project (2 weeks in advance according to internal regulations) The remaining payments are done on the basis of invoices presented It can be said that the monitoring of the project is carried out primarily by the Accountancy Department, which is the first who may notice any

deficiencies (lack of invoices, payments not cleared) In such cases, action is taken by the Control Department

The Control Department takes up action not only when deficiencies become apparent, but can also do it on the order of the Management Board or specialized technical units If serious failures in the project implementation are found, the agreement can be terminated and a return of all previous payments requested

Project monitoring is also supported by the Inspection for Environmental Protection (environmental police) In the cases of investment projects, such as sewage treatment plants, heating plants, etc , apart from the final protocol of project completion also an additional protocol is required that confirms the environmental effect achieved This is a prerequisite of the project completion acceptance and is one of the conditions for applying, after some time, for partial loan remission