

**Environmental Funds in CEE Countries:  
Status Report**

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**Introduction**

Since the beginning of the transition to market economies, environmental funds have been a mainstay of CEE countries' efforts to address the legacy of environmental damage and misallocation of natural resources. Nearly all countries in the region have at least one environmental fund and a few countries (Poland, Lithuania, Latvia, Bulgaria) have two or more. The funds share a common goal – assisting in the co-financing of environmental activities – but differ in their size, organizational structure, procedures for selecting projects, sources of revenue, and methods of disbursement.

This report provides a brief analysis of the current status of environmental funds in the CEE region. It is organized into three sections. The next section provides an overview of environmental expenditure activity and discusses the likely shifts in demand in the next few years. The subsequent section provides an overview of key features of environmental funds. The final section includes a series of questions that serve as a framework for analyzing the role and performance of environmental funds.

**Environmental Expenditures**

To provide some context for examining the role of environmental funds, it is useful to review the level of environmental investment and the likely changes in activities in the next few years. Although there are large differences in the quality of investment data and methods of categorizing expenditures in the CEE countries, expenditure data have been developed for several CEE countries using OECD's Pollution Abatement and Control (PAC) methodology. PAC expenditures are composed of two types of expenditures: (1) *investment expenditures* and (2) *current expenditures*, the latter representing O & M.

Table 1 presents PAC expenditures for selected CEE and OECD countries as a percentage of GDP and as a percentage of gross fixed capital formation. As a percentage of GDP, environmental expenditures for CEE countries are comparable to those for OECD countries. In Poland and the Czech Republic, PAC expenditures on investment are a larger percentage of GDP than total PAC expenditures in OECD countries. For the other CEE countries in the table, PAC expenditures although significantly lower than for Poland and the Czech Republic, are comparable to several OECD countries. When PAC expenditures on investment are expressed as a percentage of gross fixed capital formation (one measure of overall investment levels), levels observed in Poland and the Czech Republic are significantly higher than in all OECD countries. Given the fact that *private* internal rates of return on environmental investments are typically negative or, if positive (e.g. for "win-win" investments), smaller than for economically

-motivated investments, these statistics suggest that CEE countries are willing to address environmental concerns, even if the opportunity cost is slower economic development.

**Table 1 - PAC Expenditures (capital + current)\***

Country	Year	% of GDP	% of Gross Fixed Capital Formation
Czech Republic	1994	2.7	9.0
Hungary	1996	0.61	-
Lithuania	1996	0.46	-
Poland	1996	1.7	6.5 (1995)
Slovenia	1995	0.44	-
Australia	1994	0.8	1.4
Finland	1994	1.1	3.0
France	1995	1.4	2.0
Germany	1994	1.4	2.8
Portugal	1994	0.7	1.7
Spain	1993	0.5	-
United States	1994	1.6	3.5

\* CEE expenditures only include PAC investment expenditures

Source: OECD, Summary Table 1, 1998, COWI, 1998

Current demand for environmental investments is considerably lower than levels of expenditure that will be required for CEE countries to meet EU environmental requirements. Table 2 presents estimates of the total investment that will be needed to meet requirements for water, air, and waste. Even if these investments are implemented over a 10 year period, they represent a substantial increase in expenditures compared to current levels. For example, current per capita expenditures in Hungary, Lithuania, and Poland are \$26, \$12, and \$58 respectively (COWI, 1998).

**Table 2 - Estimated Total Investments in CEE Countries**

Country	Water (BECU)	Air (BECU)	Waste (BECU)	Total/Capita (ECU)
Bulgaria	4.9	5.1	1.8-5.1	1668
Czech Republic	3.3	6.4	0.8-3.8	1427
Estonia	1.5	-	-	-
Hungary	6.6	2.7	2.1-4.4	1306
Latvia	1.71	-	-	-
Lithuania	2.38	-	-	-
Poland	18.1	13.9	2.2-3.3	927
Romania	10.1	9.1	1.0-2.7	943
Slovak Republic	1.9	1.9	0.3-1.6	760
Slovenia	-	0.69	1.15	-
Total	50.5	48.2	9.7-22.7	-

Source: EDC, 1997

## Overview of CEE Funds

Environmental funds are institutions which are endowed with working capital that is allocated to environmental activities. Environmental funds can support investments in environmental improvements, research, education, and environmental management expenditures such as

purchase of monitoring equipment and outfitting of laboratories. The primary functions of the fund is to decide which activities should receive support and monitor implementation of supported activities. Nine CEE countries have established thirteen national environmental funds. In addition, there are regional funds in Poland and municipal funds in Poland and Lithuania. Although some environmental funds existed in the 1980s, most CEE funds have operated in their current form only since 1989 (Polish National Fund) or the 1990s. Key features of CEE environmental funds are described below. In addition, information on revenues, sources of revenue, and disbursement mechanisms is provided for selected CEE funds in Table 3.

Institutional Structure CEE environmental funds take one of two forms. Most of the national environmental protection funds are either a part of or under the supervision of the Ministry of Environment (MoE). For these funds, the Minister plays an important role in determining the expenditure policies and priorities of the funds and may even make the final decision on which activities receive support. The remaining environmental funds are independent, although the linkages between the MoE and the environmental fund may be quite strong (e.g., MoE participation on supervisory boards, approval of annual budget, ministerial powers to select fund managers and supervisory board members). Organization of environmental funds as independent entities has been the favored approach for *debt-for-environment swaps* in Poland and Bulgaria, and investment funds capitalized by donors or IFIs (Latvia and Slovenia). Among environmental funds that rely on domestic revenues, only the national and regional funds in Poland are independent (although the Polish Minister of Environment selects all supervisory board members for the national fund).

Project Cycle Management All CEE environmental funds have formal or informal procedures for identifying, assessing, and selecting projects to receive financial support. The *St. Petersburg Guidelines*, developed in 1994 as part of the EAP Task Force activities, enumerates criteria for evaluating fund performance and describes best practices. While the *Guidelines* document acknowledges a wide variety of project cycle management approaches, it emphasizes transparency and accountability as essential attributes. The Polish EcoFund (debt-for-environment swap) was acknowledged as having the best project cycle management among CEE funds at the time of the St. Petersburg Conference. Since then, a number of Polish regional funds and all of the environmental funds established since the *Guidelines* were developed have included adoption of formal project cycle management procedures.

Revenues There are a number of very large environmental funds in CEE countries (Table 3) led by the Polish National Fund and the Czech State Environmental Fund. With the exception of the debt-for-environment swaps, environmental investment funds in Latvia and Lithuania, and the environmental development fund in Slovenia, all of these funds rely on domestic sources of revenue. The major sources of revenue are environmental fees (and fines) and various product charges. Since the majority of these fees and charges are paid by facilities, the role of the funds can be characterized as *recirculating* revenues, albeit to priority projects. Other sources of revenues include proceeds from privatization transactions, loan repayments (see discussion in next section), and profits from financial activities (primarily interest on bank deposits).

Disbursements Almost all disbursements are in one of three forms: grants, soft loans, or interest subsidies. Grants are the most common type of disbursement and the most desirable from the perspective of the project proponent, since there is no requirement to pay back the amount of the award. Soft loans refer to credits that have terms and conditions that are not available in commercial credit markets: lower interest rates, allowance for grace periods, and longer

-repayment periods. As loans are repaid, the working capital of the fund increases and the fund *revolves*. For example, loan repayments represent 30% of annual fund revenue of the Polish National Fund. Interest subsidies are used by the Polish national and regional funds. The fund pays the subsidy to the bank so that the interest rate received by the borrower can be reduced. This mechanism encourages capital market participation in environmental financing and increases the fund's ability to *leverage* its resources.

**Table 3 - Environmental Funds in CEE Countries**

Country and Fund	1996 Revenues	Major Sources of Revenue (% of revenue)		Major Disbursement Mechanisms (% of funds)	
		Leading Source	Second Source	Major Mechanism	Second Mechanism
Bulgaria: National Environmental Protection Fund	8.9 mill USD	Carryover - 31%	Import Duty on Used Cars - 21%	Grants - 46%	No interest loans - 45%
Bulgaria National Trust Fund	5.5 mill USD	Debt Swap - 74%	Profits/financial operations - 23%		
Czech Republic: State Environmental Fund	197 mill USD	Env Fees - 49%	Privatization proceeds - 37%	Grants - 55%	Soft loans - 43%
Estonia: National Environmental Protection Fund	6.7 mill USD	Env Fees - 50%	Water use charge - 21%	Grants - 95%	Soft loans - 1%
Hungary: Central Environmental Protection Fund	93 mill USD	Fuel charges - 47%	Product charges - 29%	Grants - 51%	No interest loans - 17%
Poland: National Fund for Environmental Protection and Water Management	433 mill USD	Env Fees - 49%	Loan repayments - 30%	Soft loans - 64% in 1995	Grants - 18% in 1995
Poland: EcoFund	31.3 mill USD	Debt Swap - 89%	Profits/financial operations - 10%	Grants - 100%	-
Poland: Cracow Regional Environmental Protection Fund	17.2 mill USD	Env Fees - 61%	Profits/financial operations - 28%	Soft loans - 73%	Grants - 24%
Slovak Republic: State Environmental Fund	42.7 mill USD	Env Fees - 67%	State budget - 22%	Grants - 100%	-
Slovenia: Environmental Development Fund	24.5 mill USD	Carryover - 38%	Privatization proceeds - 23%	Soft loans - 100%	-

Source: OECD and Regional Environment Center, 1998

### Performance of CEE Environmental Funds

The brief analysis of CEE environmental funds below focuses on a few key issues: the role of funds in the transition, funds as subsidy instruments, potential for funds to crowd out capital markets, management of funds, and strategic value of funds.

The role of funds in the transition to market economies Revenues recirculated by CEE environmental funds are an important source of revenue, accounting for 32% of all environmental investment expenditures in Poland and more than 20% in other CEE countries (COWI, 1998). During the transition period, CEE countries are in various stages of strengthening environmental management and enforcement capabilities; overall enforcement is weak and financing from funds serves as a catalyst for investments that would not voluntarily be undertaken by project proponents. In addition, funds provide a response to capital market failures, providing a source of "gap" financing.

Much ado about subsidies The *Polluter Pays Principle* (PPP) states that the polluter is financially responsible for meeting environmental standards set by government authorities

(OECD, 1994). Fund disbursements which have a subsidy element violate this principle since the polluter does not pay the full cost of achieving the goal. There has been much discussion of the provision of subsidies by CEE environmental funds in various policy fora. The UNECE Committee on Environmental Policy supports the use of earmarked environmental funds and eco-banks during the period of transition or for special purposes such as remedying past contamination. In addition, some OECD countries acknowledge that environmental funds do not violate the PPP if the revenues disbursed are collected from fees on pollution (Anderson and Zylicz, 1995).

The attention that the subsidy issue has received is somewhat puzzling given the legacy of subsidies in both the public and private sectors in OECD countries (Anderson, 1998). Many OECD countries still provide subsidies for public sector environmental infrastructure, although these have been reduced in recent years. During the 1970s, when OECD countries were beginning to address environmental problems, infrastructure investments received subsidies in most countries of over 50%, mostly in the form of grants. Some of the inefficiencies that have been associated with the construction grants program in the United States are less likely to result in the CEE because the financial support available from funds is more limited and competitive.

Funds and capital markets Environmental funds have also been criticized because they represent a potential barrier to the formation of capital markets for environmental investments. By providing subsidized or concessional financing, fund discourage applicants from arranging finance from banks and other financial or capital institutions. There appears to be no compelling evidence to support these claims. Given the low level of demand for investments, which largely results from lax enforcement of environmental regulations, project proponents can "shop" for the best deal. In most CEE countries this means securing concessional financing. When concessional financing is not available, there is evidence from a study in Poland that the project proponents either postpone investments or use own resources to close the financing gap (Anderson and Zylicz, 1998). Commercial credits rates are not yet attractive to facilities and lax enforcement allows facilities to delay compliance decisions. In addition, interest among banks in supporting investments in the environmental field is currently limited as well. Most CEE banks lack the expertise to evaluate environmental investments, in part because there is not adequate demand for credit to provide incentives for banks to develop these capabilities.

One positive development in fostering a greater role for capital markets in the environmental sector has been the cooperation between CEE environmental funds and banks in Poland, Latvia, and Lithuania (proposed). Banks can perform the financial appraisal of applications for soft loans, manage loans for the funds, or issue loans where the fund provides an interest subsidy or guarantees the loan.

Management One of the major concerns about CEE funds has been the lack of adequate procedures and checks and balances to ensure transparency and accountability. In the absence of transparent criteria for selecting projects, provisions for informing applicants of rejected projects of the reasons for rejection, and reporting requirements, environmental funds have the potential to be misused and manipulated for political purposes or personal financial gain. This has been a very difficult issue to address in the CEE because of low public salaries and a level of cynicism leftover from years of living in a political meritocracy. The Polish National Fund, which is often held up as the shining star among CEE funds because of its size, innovations, and independence, has not adopted selection criteria and is controlled by a supervisory board where all the appointments are made by the Minister of Environment, who in turn is a political appointment.

Whether it happens or not, such a system invites corruption among fund staff and board members for supporting projects. While there have been a few scandals surrounding environmental funds in the region, funds for the most part operate in a responsible way even without appropriate formal project cycle provisions. And some funds are exemplary in their management practices. Last year, the OECD and EU-PHARE jointly conducted a management review of the Polish EcoFund. In assessing EcoFund's additionality, the review stated:

*Much of EcoFund's additionality stems from rigorous project cycle management procedures based on: a strict framework of clearly defined environmental priorities and project eligibility criteria; clear requirements for, and strictly professional relations with, applicants; clearly defined appraisal criteria emphasizing environmental benefits and cost-effectiveness; and careful monitoring of projects to ensure proper use of funds and achievement of environmental effects. (EAP Task Force, 1998, p.3)*

Strategic role of funds As demand for investments increases in response to EU compliance schedules, there is likely to be keen competition for fund support. Some funds have already experienced an increase in demand for financing and have revised co-financing rates (i.e., reduced the level of support provided for individual projects) and explored the expanded use of mechanisms which have smaller subsidy components than traditional grants. As discussed earlier, funds should be encouraged to cooperate with banks and to effectively utilize banks comparative advantage in financial appraisal and ability to raise capital. A critical need is for funds to develop a greater appreciation for cost-effectiveness and to develop criteria to ensure projects achieve their goals at least cost. The potential of using funds as strategic partners of ministries in initiating compliance programs, attracting donor technical and financial assistance, encouraging the transfer of technology, and developing domestic capabilities to produce environmental control equipment and provide services is largely untapped.

## Conclusion

As illustrated by the potential costs of meeting EU requirements, CEE countries will have to increase their commitment to environmental investment in the next decade. While the transition to market economies is proceeding rapidly in some countries, the challenge of addressing environmental problems will continue long after the economic transition has ended. CEE environmental funds have played an important catalytic role, at a time when financing has been limited and enforcement efforts lax, in part a reflection of the economic situation as well as the weakness of environmental management institutions.

To play an effective role in the next decade, environmental funds will need to strengthen management capabilities and procedures and to increase transparency and accountability. As the economies in the region recover and demand for financing increases, CEE funds will need to evolve, identify key sectors that will need funding assistance, respond to shifts in priorities, and evaluate and modify disbursement policies.

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ECOFUND FOUNDATION

## Ecoconversion the Polish Way

### *Environmental projects have benefited immensely from the Paris Club's concept of debt for ecology.*

For six years, the Polish EcoFund Foundation has implemented ecoconversion, or a debt for environment swap. The process involves reducing debts and channelling the money to environmental purposes, when agreed with individual countries. As a result of this arrangement, EcoFund is one of Poland's largest sources of funds for environmental protection. In the past five years it has designated nearly \$100 million for 303 projects.

"By 2010 we will have provided another \$400 million for ecological undertakings in Poland," the foundation's head, Prof. Maciej Nowicki, said in late March. "If everything goes well, we may reach a total of \$1 billion."

The idea for this novel form of paying debts was conceived in 1991 by the Paris Club, of the largest foreign creditors governments. The club cut the country's \$32-billion debt in half, with the understanding that the rest would be paid by 2010. Then the Polish government suggested designating another 10 percent of the debt to supporting urgent environmental protection projects in the country.

The U.S. government was the first to respond. In 1991 it decided to convert \$370 million, or 10 percent of Poland's debt. That helped establish the EcoFund foundation in December 1992, and other countries soon followed. In 1993 Switzerland reduced 10 percent of Poland's debt, or \$66 million, and France converted 1 percent of the debt, or \$63 million. Last September Sweden converted 2 percent of the Polish debt, or 50 million kronor (nearly \$6.28 million at today's rates).

The funds are divided into five categories: reducing the emission of gases which affect the Earth's climate, decreasing the travel of sulfur dioxide and nitrogen oxides beyond Poland's borders, reducing the Baltic Sea's pollution, sustaining Polish natural resources' biodiversity, and, most recently, waste management. The foundation grants subsidies for only 10-30 percent of a project's cost, but if a budget-financed institution or local government is the investor, assistance may cover half the project's value. For projects in environmental protection by non-governmental organizations, the subsidy may cover up to 80 percent of a project.

According to Nowicki, 1997 was a record year for the foundation in terms of revenue, the number of projects and the value of subsidies granted. The revenue was z1.92.2 million, 22 percent more than in 1996, with growth resulting from an increase in foreign currency rates and new agreements with Norway and Sweden. The Norwegian Foreign Ministry provided 3 million kroner (nearly \$394,000 at today's rates) in recognition of the foundation's exemplary activities.

The EcoFund was audited twice last year. The Organization for Economic Cooperation and Development (OECD) inspected it as an instrument of ecological and financial policies and as a public institution. The foundation was declared "effective and efficient in environmental protection activities and a model solution for Poland and Central and Eastern European countries." When KPMG Polska Audit Sp. z o.o. and Ernst Balsler & Partner audited EcoFund in November, it agreed with the OECD's assessment.

One of EcoFund's tasks is to promote the use of environmental technologies from the donating countries, through financial assistance for purchasing entire or partial technological lines.

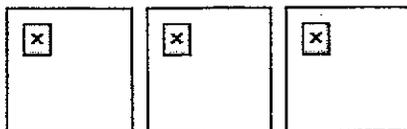
In 1997 the foundation purchased supplies worth more than z1.40.3 million-34 percent of all expenses for project implementation. The largest contracts included purchases from U.S. firms (nearly z1.19 million), French (z1.9 million), Swiss (almost z1.3.24 million) and Swedish companies (z1.2.43 million).

During a March 24 meeting the EcoFund council approved subsidies for 33 projects between 1998 and 2002, at a total cost of zł.78.6 million.

The council also decided to keep donating money to Cracow's gas emission reduction program. Nearly zł.2 million was allocated for replacing 50 boiler rooms in the city center. The foundation will also provide nearly zł.1.17 million for using renewable energy resources, including the construction of two small water power plants.

World Bank and EU representatives said EcoFund managed more money than the total amount that 22 other countries spent on ecoconversion. This success can be attributed to political independence, stable and predictable revenue and public decision-making processes.

Eugeniusz Pudlis



## PRESENTATION

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# The EcoFund as a Financial Source for Environmental Investments in Poland

Mr. Andrzej Czyz, Deputy President, The EcoFund, Poland

### The origin, revenues and organisation of the EcoFund

The EcoFund was established in 1992 with the purpose to manage resources originating for the debt-for-environment swap. It was a result of a general agreement reached between Poland and the Paris Club countries on reduction and restructuring of the Polish public debt. This agreement made possible conversion of additional 10% of the Polish debt into environmental expenditures on a bilateral basis. In the years 1991-93 Poland concluded relevant agreements with the United States, France and Switzerland, that created financial base for the EcoFund operation. In 1997 also Sweden joined the scheme. Those agreements provide for transferring of over USD 500 million (in Polish currency) to the EcoFund account from the national budget until 2009 in semi-annual tranches - to be spent on environmental projects.

The EcoFund is an independent non-profit foundation established by Poland's Minister of Finance. This year the role of the EcoFund's founder was taken over by the Minister of National Treasury. The founder approved the EcoFund's Statutes, nominates the Supervisory Council for 3 years term, approves the foundation's annual budgets and represents the Polish government *vis-a-vis* the EcoFund. The Supervisory Council consists of representatives of the Polish government and of donor governments. It defines the EcoFund policies, approves annual reports, approves financing for specific projects and nominates the EcoFund's management. The Managing Board is the EcoFund's executive body, responsible for day-to-day operation. It makes initial identification and selection of projects to be considered by the Council and monitors proper implementation of projects approved. The EcoFund is still a relatively small institution with employment of 21 staff (including the Board).

Currently annual revenues from the debt-for-environment swap amount to USD 28 million. The total amount received by the EcoFund in the years 1992-1997 exceeded the equivalent of USD 100 million. This constituted 89% of the EcoFund's income. The remaining 11% comes from term deposits and other financial operations. In total the EcoFund had so far over PLN 300 million in its disposal for environmental projects.

It is worth to note that administrative expenses of the foundation were equal 25% of revenues from financial operations. All swap revenues were committed to projects.

### Objectives of the EcoFund, areas of funding

The statutory objective of the EcoFund is to support - by way of grants - particularly important activities in the field of environmental protection in Poland. The proposed projects ought to be consistent with the "National Environmental Policy" as adopted by the Polish Parliament in 1991 and should contribute to Poland's compliance with obligations arising from international conventions and agreements.

Basically, these projects ought to fit into the four areas ("sectors") defined in the Statutes of the Foundation, and considered to be of high priority internationally:

1. limiting the greenhouse gases emissions, and the phase-out of substances depleting the ozone layer;
2. reducing the transboundary flow of sulphur dioxide and of nitrogen oxides;
3. reducing the pollution of the Baltic Sea;
4. biodiversity conservation.

In the area of reducing emissions of greenhouse gases the EcoFund may support projects aimed at:

- energy saving;
- promotion of renewable sources of energy;
- elimination of methane emissions;
- CFCs phase-out from industrial processes.

In the sector concerning reduction of SO<sub>2</sub> and NO<sub>x</sub> emissions projects addressing the following issues can be supported:

- removal of sulphur from fuels;
- modern technologies in energy generation;
- removal of SO<sub>2</sub> and NO<sub>x</sub> from flue gases.

In the area of the Baltic Sea protection against pollution the following projects can be supported:

- construction of sewage treatment plants having significant impact on the Baltic Sea contamination (the so called "hot

spots" and/or coastal municipalities);

- construction of sewage treatment plants improving purity of drinking water in the largest urban agglomerations.

In the area of biodiversity conservation the EcoFund may support projects concerning:

- investments aiming at the protection of wetland ecosystems;
- active protection of animal and plant species threatened with extinction;
- technical and educational infrastructures of the national parks;
- afforestation programmes.

Currently a new priority window is in preparation: waste management and contaminated soil reclamation. The EcoFund should start accepting application in this area next year.

Specific feature of the EcoFund is its role in promotion of the transfer of modern environment friendly technologies from the donor countries onto Polish market, particularly for demonstration installations. Financial support from the EcoFund is usually concentrated on purchases of equipment made in Poland or imported from the those countries. In the years 1993-96 about 30% of all funding was spent on imported goods. In fact imports from France and Switzerland financed from the EcoFund were higher than contributions of those countries. This all makes the EcoFund an effective mechanism of promoting donors' environmental technologies in Poland and proves that debt-for-environment swap scheme can be mutually beneficial (win-win concept).

### **Project financing criteria and conditions**

The EcoFund may provide financial support to investment projects (construction of installations or devices designed to the benefit of environmental protection), whereas does not offer such resources for research, or monitoring of environmental contamination. The possibility of receiving financial support for "non-investment" projects may only apply to projects in the biodiversity protection area. The EcoFund may provide financial support to "investment stage" of investment projects (except the nature protection area), which means that pre-investment studies are not eligible for assistance.

The proposals presented ought to be backed up with both a feasibility study and a financial plan.

The EcoFund shall provide financial support only in the form of **non-repayable grants** which basically encompass 10-30% of a project cost. Any applicant wishing to receive an EcoFund grant has to prove a substantial contribution into project implementation from own resources, and present credible plans of receiving financial support from other sources (in the form of grants and/or loans).

In highly justified cases, when local governments (municipal or communal) are investors, the grant may cover up to 50% of a project cost. Also, budgetary entities launching environmental investment projects going beyond their statutory responsibilities may apply for financing encompassing up to 50% of a project cost; in case of nature protection projects providing no guarantee of investment return, the EcoFund share may increase even up to 80 % of a project expenditure.

Both companies (state-owned and private, including joint ventures with companies from countries which have joined the Polish debt-for-environment conversion programme) and natural persons involved in business activities can also apply for financial support. The EcoFund can assign a grant covering up to 20% of the cost, while in highly justified cases the grant may be extended up to 30% of the total cost.

A public entity, foundation, non-governmental organisation etc., while applying for a grant to support for its own project ought to prove the following:

- recognized achievements in the area which constitutes the EcoFund application subject;
- being the direct project executor;
- being accountable within the scope of adequate financial settlement of works performed.

In case of projects performed by such institutions / non-governmental organisations, and concerning biodiversity conservation, the financial support provided by the Foundation can reach 80% of project costs. In case of projects applying to other priority areas, EcoFund grants may not exceed 50% of the total costs.

## **Project financing**

In the years 1992-97 (till end of August) the EcoFund approved and made financial commitments to 226 projects (with more than 260 beneficiaries, as some projects were of complex character) of a total amount of PLN 301 million. The total cost of approved project amounted to PLN 1,7 billion, that was over 10% of all environmental expenditure in Poland in the last 5 years. Taking into account that the foundation carefully selects projects for support from the point of view of either issue addressed or solution proposed, the above figures make possible to acknowledge significant role the EcoFund plays in financing environmental projects in Poland.

About 30% of resources available were committed to 106 projects aimed at reducing emissions of greenhouse gases and CFSs phase-out. This area includes projects concerning energy saving in heating systems, modernisation of large distance heating systems and elimination of local boilers, waste heat management, coal-to-gas conversion, use of renewable energy sources (geothermal, wind, water, biomass), methane management and elimination of freons from industrial processes.

In the area of reducing SO<sub>2</sub>/NO<sub>x</sub> emissions 9 projects were approved and financial support of total amount of PLN 63 million

has been awarded. Those were mostly large investments in energy and mining sector: introducing fluidized-bed combustion, desulphurisation of flue gases or coal enrichment.

Over 40% of its resources the EcoFund allocated in water protection. This refers to 26 investments concerning construction/expanding/upgrading of sewage treatment plants in the coastal area of the Baltic Sea, some similar projects in southern Poland and 20 smaller sewage treatment plants on the territories or in the vicinity of national parks.

The biodiversity portfolio of the EcoFund contains 71 projects (majority already completed) with total support of PLN 43 million. Besides the above mentioned small and medium size sewage treatment plants it includes projects concerning:

- protection of endangered species (eagles and other birds of prey, amphibians, bats, native fish species, seal, white and black stork and other);
- conservation of wetland areas;
- educational facilities in national parks and nature reserves.

From the point of view of beneficiaries of financial support from the EcoFund in the years 1992-97, over 50% of resources was awarded to 99 projects managed by local governments. The second largest beneficiary was industrial and energy sector (57 grants amounted to PLN 125 million, but it constituted only 8% of total cost of projects supported). Support was given also to 34 entities financed from national or regional budget as hospitals and national parks' directorates (total support of PLN 14.5 million.). The EcoFund provided also PLN 6 million to 29 projects managed by NGOs.

Five years of the EcoFund operation was the time of developing this institution - its programme of action, criteria and procedures for project identification, appraisal and monitoring, and its credibility among potential clients and partners. Nowadays the EcoFund plays in the Polish system of environmental financing a significant role as one of the major sources of financial assistance to projects aimed at improvement of the state of environment in this country.

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