

PN. ABY-926

91 234



**Project in Development and the Environment**

**USAID Mission to Poland:  
Technical Assistance on  
Environmental Issues**

**March 1994**

**Submitted to:**  
USAID/ENI  
**Submitted by:**  
PRIDE

**AID Contract Number:**  
ANE-0178-Q-00-1047-00  
**AID Project Number:**  
398-0365

**Sponsored by:**  
USAID/NE/DR/ENR  
**Operated by:**  
Chemonics International  
and its associates

2000 M Street, NW, Suite 200, Washington, DC 20036  
Telephone: (202) 331-1860 • Fax: (202) 331-1871

A

The objective of the Project in Development and the Environment (PRIDE) is to help the U.S. Agency for International Development (AID) design and implement programs that foster the agency's environmental and natural resources strategy for sustainable economic growth in the Near East and Eastern Europe.

PRIDE provides AID and participating countries with advisory assistance, training, and information services in four program areas: (1) strategic planning, (2) environmental policy analysis, (3) private sector initiatives, and (4) environmental information, education, communication, and institutional strengthening.

The project is being implemented by a consortium selected through open competition in 1991. Chemonics International is the prime contractor; subcontractors include RCG/Hagler, Bailly, Inc.; Science Applications International Corporation; Capital Systems Group, Inc.; Environomics, Inc.; Industrial Economics, Inc.; Lincoln University; and Resource Management International, Inc. In addition, AID has entered into a cooperative agreement with the World Environment Center to support implementation of PRIDE.

The opinions expressed in this paper are those of the author(s) and do not necessarily reflect the positions of the sponsoring agency or contractors.

**USAID Mission to Poland:  
Technical Assistance on  
Environmental Issues**

by

Paul Parks, Team Manager

Karl G. Van Orsdol, Team Leader/Economist

Amy Evans, Institutional Analyst

Eduardo Maal, Environmental Economist

Maria Jakubowicz, Environmental Engineer

Michel Margueron, Financial Expert

March 1994

---

## TABLE OF CONTENTS

---

	<u>Page</u>
EXECUTIVE SUMMARY	i
SECTION I INTRODUCTION	I-1
A. Overview	I-1
B. General Observations	I-1
C. Issues for Further Review	I-2
SECTION II INSTITUTIONAL FRAMEWORK FOR PROJECT IMPLEMENTATION	II-1
A. Current Environmental Management System in Poland	II-1
B. Legislation/Policy/Administration	II-1
C. Financing Agencies	II-4
D. Parliamentary Bodies	II-4
E. Non-governmental Sector	II-4
F. Working Relations Between Organizations	II-5
G. Project Selection and Priority Setting	II-6
H. Issues/Recommendations	II-7
SECTION III PROJECT REVIEW AND SELECTION CRITERIA	III-1
A. Introduction	III-1
B. Project Criteria	III-1
C. Project Identification	III-8
SECTION IV PRELIMINARY WORK PLAN	IV-1
A. Methodology	IV-1
B. Specific Activities	IV-2
SECTION V FINANCING OPTIONS	V-1
A. National and Voivodship Funds for Environmental Protection and Water Management	V-2
B. EcoFund (Polish Debt for Equity Swap)	V-3
C. EcoBank (Bank Ochrony Srodowiskz - BOS)	V-4
D. Public and Private Commercial Banks	V-5

*d*

---

**TABLE OF CONTENTS**  
**(continued)**

---

	<u>Page</u>	
ANNEX A	PROJECT SELECTION CRITERIA: KRAKOW VOIVODSHIP ENVIRONMENTAL PROTECTION FUND	A-1
ANNEX B	PROJECT SELECTION CRITERIA: KATOWICE REGIONAL FUND FOR ENVIRONMENTAL PROTECTION AND WATER MANAGEMENT	B-1
ANNEX C	MEETINGS HELD AND CONTACTS	C-1
ANNEX D	SELECTED INTERVIEWS WITH ENVIRONMENTAL CONSULTANTS	D-1

E

---

## EXECUTIVE SUMMARY

---

**Actions.** The USAID mission to Poland in February/March 1994 provided significant support in initiating and supporting the Environmental Action Program (EAP) process in the Polish Republic. During the three-week mission, the team:

- Participated in the first intra-ministerial meeting held by the Ministry of Environmental Protection to discuss the EAP and Project Preparation Committee (PPC) process since the Lucerne Agreement was signed in April 1993.
- Participated in the first inter-ministerial committee to discuss the PPC process since the Lucerne Agreement was signed.
- Assisted the Ministry of Environmental Protection in developing ways and means to identify PPC-type projects.
- Held numerous meetings with the Ministry of Environmental Protection, other ministries, local and regional authorities, NGOs, and other institutions to provide information on the EAP/PPC and the U.S. commitment to the effort.
- Visited several facilities to better appraise the possible structure of U.S. technical assistance.

**Results.** Specific results that the mission supported include:

- A decision on March 1, 1994, by the Ministry of Environmental Protection Steering Committee (vice ministerial level) to develop a national Environmental Action Program.
- Systematic collection at the Ministry of Environmental Protection of information on possible Polish PPC projects that would benefit from technical assistance, including:
  - Development of simplified and detailed criteria for use in screening, selecting, and prioritizing projects.
  - Identification of three potential projects for EAP technical assistance and funding.
- A preliminary work plan for selecting and providing USAID technical assistance to a small number of Polish PPC projects.

**USAID Follow-up.** USAID will take the following specific actions to help ensure that this mission leads to results that further the EAP/PPC process in Poland:

- Participate in initial identification (chaired by the Ministry of Environmental Protection) of two to four PPC projects that would be candidates for USAID technical assistance (March 25).
- Provide technical assistance to develop these projects and determine initial project work plans (April).
- Field a mission to provide pre-investment analysis of the projects and develop final project work plans (first half of May).

**Report organization.** Section I of this report introduces the work of the team, presents some of the team's general observations, and outlines issues for further review. Section II provides an overview of the key players in environmental management in Poland and discusses how Polish authorities identify, select, rank, fund, and implement environmental investment projects. Section III presents (1) simplified criteria and a review sheet to assist the Ministry of Environmental Protection in soliciting and screening projects; (2) detailed criteria for in-depth evaluation and ranking of proposed projects; and (3) three projects identified during the mission that appear to have high ratings based on both the simplified and detailed selection criteria. Section IV outlines a preliminary work plan for Polish technical assistance in support of EAP. The report ends with an overview of financing options for consideration in Section V.

---

## SECTION I INTRODUCTION

---

### A. Overview

In October 1993, Ron Greenberg led a short mission to Poland to explain USAID's activities to support the Environmental Action Program (EAP). The present mission, in February-March 1994, was a follow-up to that visit and the first significant EAP-related mission to Central and Eastern Europe since the Lucerne Agreement was signed in April 1993. Thus it initiated the EAP process not only in Poland but in the region as a whole. It was a learning experience not only for Poland, but for USAID in understanding and structuring its EAP assistance.

Less progress than hoped was made between the October 1993 visit and this one. This was not a surprise as both the Office of the AID Representative (OAR) and Glen Anderson, the Harvard Institute for International Development (HIID) policy advisor, had kept USAID/W informed of the process. The mission thus served as a catalyst to the Polish EAP process.

The primary purpose of this mission was to identify and select investments that meet the criteria of the EAP Project Preparation Committee (PPC). The EAP process in Poland was not far enough along to achieve that goal. Nevertheless, the mission team visited many organizations and individuals to get a better understanding of how PPC projects can be made bankable (see Annex C). Further, the team established a process and a timetable for identifying PPC projects and structuring USAID technical assistance to support the Polish EAP/PPC and produce tangible results by the 1995 Sofia Conference.

While numerous people were very generous with their time and advice, special thanks go to Lesznik Banaszak of the Ministry of Environmental Protection, Andrzej Pecikiewicz of the OAR, and Glen Anderson of HIID.

### B. General Observations

#### B1. Lucerne Follow-up

A general view held throughout the Polish Ministry of Environmental Protection was that follow-up by donors to the Lucerne Agreement was inadequate and that the lack of action and results had made the recipient countries distrustful of donors. The PPC was viewed as having no known effect and as being closed to the CEE countries.

The Lucerne Agreement itself was viewed as useful, and environmental health was viewed as a major priority. The Polish authorities stressed that national and regional issues

must be reflected in setting priorities for developing a national EAP and selecting PPC projects.

## **B2. PPC Projects**

The mission team was able to visit and receive information on numerous facilities for which investments would improve the environmental health of the community. While the economic and technical status of these facilities would have to be determined, they appear to represent PPC-type projects. Further, the number of such investments is quite large, and economic feasibility will be the crucial factor.

The offer of USAID technical assistance to help turn these projects into bankable investments was well received. The main areas of assistance appear to be environmental appraisals, economic and financial appraisals (and training), business planning, rate structures, and identifying and obtaining financing.

The various organizations often stressed their desire to involve as many local people as possible in technical assistance. USAID shares this view as vital to sustainability, and every effort will be made to ensure knowledge transfer by using local consultants and integrating staff of the facilities into the technical appraisals.

Both the Ministry of Environmental Protection and the mission generally agreed that a few projects should be selected as soon as possible to determine whether the structure of the technical assistance is practical and effective. This agreement is reflected in the schedule of future USAID actions.

## **B3. Financing**

A general issue throughout Central and Eastern Europe is the lack of a domestic capital market to support investment. This is a particular concern for environmental investments, as their benefits tend to accrue over a long period of time. Poland has been in the forefront of providing environmental investments through public funds and institutions—e.g., the National Fund for the Environment, EcoBank, and EcoFund. Nevertheless, environmental investment needs substantially exceed resources.

The mission discussed with various people the need and desirability of establishing new financial intermediaries (such as guarantee and revolving funds). There was a general awareness that this was a major need, but a reluctance to begin major new initiatives. The mission team promised that new developments in this area will be made available to the Polish authorities.

Concerning international financing, there was a belief that little financing would be available for environmental investments through the international financial institutions. The mission team concurs with this belief. Thus the projects selected for USAID technical assistance will be those for which domestic financing is most appropriate.

### **C. Issues for Further Review**

Issues whose future resolution will affect the EAP/PPC process in Poland are briefly summarized below:

- Care should be exercised to ensure that projects collected by the ministry are valid PPC-type projects.
- Priorities are still evolving, and this evolution needs to take into account both Lucerne and Polish environmental priorities. These priorities should be explicitly addressed in selecting PPC projects.
- Local authorities, NGOs, and other appropriate parties should be included in the EAP/PPC process.
- The means of identifying and providing USAID technical assistance is still being developed (EP3 is working on this.)
- The actual structure and range of costs for USAID technical assistance per project will not be known until actual projects are identified.
- Level of technical assistance, time required for pre-investment analysis, and time needed to implement projects will not be known until actual projects are identified and work plans developed.
- Methods need to be designed to maximize domestic inputs into both USAID technical assistance and project implementation to ensure the sustainability of the process.
- Project financing issues are still vague, and a better understanding is needed of (1) domestic co-financing options and (2) available international financial instruments.

---

## SECTION II

### INSTITUTIONAL FRAMEWORK FOR PROJECT IMPLEMENTATION

---

#### A. Current Environmental Management System in Poland

An accurate understanding of the Polish environmental management system and its institutions is needed for EAP-related technical assistance programs to operate effectively in the Polish context. This section provides a brief overview of the key components of environmental management in Poland, discusses working relationships between organizations, and describes how Polish authorities identify, select, rank, fund, and implement environmental investment projects. The section concludes with a discussion of several difficult or especially significant issues, and recommends measures and points to consider during design and implementation of the USAID assistance program.

Several different groups are involved in shaping and implementing environmental policies and programs in Poland. These include:

- Governmental administrative bodies at the central and local level: ministries, 49 voivodship (province) offices, regional management boards
- Self-governmental administrations/gminas (communities)
- Financing agencies
- The Parliamentary Commission for Environmental Protection and other legislative bodies
- The non-governmental sector: groups of experts, scientific/research institutions, other NGOs

These organizations interact in various ways as a result of overlapping institutional, legal, and structural factors that affect their independence or interdependence.

#### B. Legislation/Policy/Administration

##### B1. Governmental Administrative Bodies and Supporting Institutions

The chief government entity involved in environmental protection is the minister of environment, natural resources, and forestry, who is responsible for implementation of environmental legislation, policy, and rational management of environmental resources.

The executive body of the minister is the Ministry of Environmental Protection, Natural Resources, and Forestry (MOSZNL). MOSZNL consists of 14 main departments for

protection of essential environmental components (water, air, soil); international cooperation; creation of environmental policy; ecological education; legal and financial aspects; and the management and rational use of natural resources. Interdepartmental cooperation takes place according to internal working practices defined by the minister.

Advisory bodies to the minister include the State Nature Protection Advisory Council, the State Environmental Protection Advisory Council, and the Geological Advisory Council. In addition to MOSZNL advisory bodies, an environmental advisory board (currently chaired by Kozłowski, former minister of environment) serves the president of Poland.

The State Inspectorate of Environmental Protection (PIOS) is the environmental monitoring body of the minister. The chief inspector of environmental protection (also a vice minister of environment) is the coordinator of the state environmental monitoring program that focuses on environmental quality standards compliance and the effectiveness of environmental programs.

Entities subordinate to the minister include the State Inspectorate of Environmental Protection and regional structures (more than one voivodship), such as the Regional Water Management Authorities and national parks, responsible for particular areas of environmental protection. Other entities, such as the National Fund for Environmental Protection and Water Management, the Institute for Environmental Protection, and the Institute for Meteorology and Water Management, are supervised by the minister. The minister may also establish entities such as engineering and construction enterprises involved in environmental programs research or implementation.

The minister's influence on creating environmental policy at the local level is limited to coordination and legislative responsibilities (legal acts and regulations). Governmental administration at the local level is performed by the voivods mainly through the Departments of Environmental Protection of the Voivodship Offices. The environmental departments are responsible for issuing decisions and permits regulating environmental usage and defining allowable emissions levels and corresponding fees and penalties. The departments also conduct public relations activities and participate in ecological education programs and evaluations of local environmental planning and management measures. Local-level environmental management, as well as all other aspects of public administration, will be profoundly influenced by the proposed consolidation of the current 49 voivodships into 12-15 larger administrative units, and the corresponding creation of approximately 2,000 smaller local administrations. The timing of this consolidation is unknown at present, but it is not imminent.

Environmental monitoring at the local level is provided by the measurement facilities of the 49 Voivodship Inspectorates of Environmental Protection (WIOS), which are independent of the Voivodship Offices but subordinate to PIOS; the Voivodship Sanitary and Epidemiological Stations, which are subordinate to the Ministry of Health and Social Issues; and various scientific and research institutions.

In some cases where environmental protection issues go beyond the voivodship borders, local governmental management is supported by regional/district management boards established according to geographical criteria (e.g., locations of river basins, forests).

Other ministries indirectly involved in environmental protection, mostly in legislation development, include the Ministry of Labor and Social Policy, Ministry of Health and Social Issues, Ministry of Industry and Trade, Ministry of Transport, Ministry of Physical Planning and Construction, Ministry of Finance, and Ministry of Agriculture. The Ministry of Industry governs the energy sector and all manufacturing enterprises that have not yet been privatized. Inter-ministerial cooperation is coordinated by the Council of Ministers. Informal consultations among ministers or the relevant departments or advisors of the ministries occur frequently on matters of common concern. MOSZNL and the Ministry of Privatization cooperate through an Inter-ministerial Committee for Ecological Issues to address questions associated with environmental liabilities in privatization. The Central Office of Planning works closely with the Ministry of Finance to analyze annual budgets and provide economic forecasting for all sectors, including environment.

The basic legal document is the Environmental Protection Act of 1980 and further amendments, according to which all environmental protection issues should be taken into account in national and regional planning as well as in legal regulations governing different aspects of institutional and public activities. Additionally, some important elements of environmental regulations appear in criminal, civil, or labor law and international agreements to which Poland is signatory. The document that defines the main principles, priorities, and short-, medium-, and long-term goals of environmental protection in Poland is the 1990 National Environmental Policy of Poland, which was accepted by the Parliament in 1991. The 1990 policy is serving as the basis for further developments in Poland's environmental programs, including preparation of a National Environmental Action Program consistent with the Lucerne Agreement, and in bilateral assistance such as that supported by EU/PHARE for institutional strengthening.

## **B2. Self-governmental Administrations/Gminas**

According to the current (1991/1993) legal regulations, gminas (communities) constitute territorial self-governing units that have their own local rights and responsibilities. In the field of environmental protection, these administrations are responsible to some extent for monitoring and enforcement in local physical planning and management, water supply systems, waste and waste water disposal, and greenery. Gminas may also be involved in implementing tasks ordered by the Voivodship Office.

Implementation of gmina environmental tasks is funded from the gminas' own resources (revenues, taxes), fees and fines/penalties for removal/cutting of trees, industrial waste disposal, and emissions discharged to air and water by polluters located on gmina territories.

### **C. Financing Agencies**

The main sources of financial support (local, foreign, mixed) for environmental projects in Poland are described below. It is important to note that the financing bodies influence environmental policy in Poland through their criteria, schedules, and priorities for selected projects. The following section summarizes briefly the key domestic sources of financing environmental investments in Poland. A more detailed review of environmental financing is available in a report prepared under the USAID Capital Development Initiative (CDI) project and attached as Annex E.

The principal sources of financing include the central state budget (approved by the Parliament), the resources of state-owned or private enterprises, environmental funds, and banks. The most important funds and banks are:

- National Fund for Environmental Protection and Water Management
- Voivodship Funds for Environmental Protection and Water Management
- EcoFund
- EcoBank (BOS)
- Polish Development Bank

### **D. Parliamentary Bodies**

Several parliamentary committees, services, and associations contribute to formulating environmental policy, chiefly through review and action on legislation and international agreements. Among these are the Sejm (Parliament) Committee on Environmental Protection and Natural Resources and the Bureau for Research and Expertise of the Sejm Chancellory (similar to the U.S. Congressional Research Service).

### **E. Non-governmental Sector**

Three types of non-governmental or quasi-governmental organizations play a role in developing or implementing environmental policies and programs in Poland. These include academic institutions, environmental NGOs, and for-profit firms that provide environmental goods and services. Leading professionals from academic and research institutes (Polish Academy of Sciences, industrial research institutes, university centers) are frequently consulted or asked to serve on panels or task forces to address specific environmental technical, economic, legal, or policy issues. Most bodies of this type serve in an advisory capacity only, although the Environmental Impact Assessment (EIA) Commission is an example of an independent, mixed non-government and government body, chaired by a prominent NGO leader, which has legal authority to accept or reject EIAs.

Numerous environmental non-profit NGOs of varying sizes and interests are active in Poland. Many are small, grassroots organizations run by part-time staff to address issues of largely local concern (siting of landfills or incinerators, feasibility of a battery disposal facility, establishing or maintaining protected natural areas). Several are fairly large, however, with paid staff and the ability to specialize in research and policy dialogue on key issues that might otherwise be neglected or inadequately supported by authorities, such as environmental health concerns, the environmental implications of transportation policy, and environmental management by local governments. NGOs have recently been called upon by gmina governments to investigate incidences of soil contamination and to help develop energy efficiency plans. Historically, NGOs (notably the Polish Ecology Club), with support from academics and other professionals, grew up with the first Solidarity movement in the early 1980s and played a pivotal role in shaping Poland's current environmental policy via the 1989/1990 roundtable discussions between the former Communist government and the opposition.

Polish private sector firms that provide environmental goods and services to gmina, municipal, and voivodship governments and to industrial facilities have grown significantly over the past decade. Foreign firms are also competing in this market, usually through local affiliates or subsidiaries. Government authorities and other users of these services seem not to suffer any lack of skills or technologies, but rather to need experience in evaluating accurately their own needs and the comparative ability of competing firms to meet them. Some personnel of government offices and, commonly, scientific and academic institutions engage in outside consulting, often in the same area of expertise for which they have responsibility in their "regular" jobs. This is not yet expressly forbidden under Polish law, but clearly leads to potential conflicts of interest and improprieties.

#### **F. Working Relationships Between Organizations**

Both formal and informal inter-ministerial task forces, committees, and working groups are established to address emerging environmental issues. Some, such as the Privatization and Environment joint ministerial committee, housed in the Ministry of Privatization, have proven successful and effective in their operations. Others, such as the inter-ministerial task force on sustainable development, produced recommendations that were ultimately not accepted by the Council of Ministers. As is the case in most governments, good progress can often be made during informal consultations between organizations, while to adopt and implement the agreements formally requires many meticulous steps through the bureaucracy, complicated in Poland by a fluid political context.

Implementation of projects approved for financing can be complicated by uncertainties due to frequent changes in legal and regulatory statutes, the complexity of issues, the number and responsibilities of organizations involved, individual professional relationships, and how key personnel understand their roles.

## G. Project Selection and Priority Setting

Based on discussions with representatives of voivodship, municipal, and national environmental agencies and the Polish quasi-governmental financial institutions (National Fund, EcoFund, EcoBank, two voivodship environmental funds, gmina budgets), the following section describes the process currently used to identify, select, fund, and implement environmental investment projects.

Project concepts are identified by local authorities, often with input from the scientific/academic community, based on measures needed to bring a facility into compliance with emissions or effluent standards (when available) or to contribute to environmental goals identified in international agreements to which Poland is party. In general, local officials seem to feel that there is no mystery about what needs to be done to improve environmental quality, but they lack the tools to select among competing high-priority problems, to rank them, and to sequence their implementation. The basis for the initial identification of projects in some cases does not seem to incorporate sound analysis or overt consideration of factors (social, economic, financing, legal) other than environmental factors.

Based on discussions with the voivodship environment funds, the financing institutions receive policy guidance from the environmental agencies regarding which projects to support. Neither the environmental agencies nor the funding agencies appear to evaluate or compare projects to each other once they are accepted as desirable or necessary. The information collected for each proposed project includes the project description, technical requirements, environmental effects (including information about population proximity and density), and duration and amount of time required to achieve the anticipated environmental benefits. Based on the criteria provided by the Krakow environmental fund management (see Annex A) the evaluation process considers the *quantities* of emissions/effluent to be reduced, but does not examine the relative risk to exposed populations posed by the contaminants or the proposed project's potential public health benefits.

The primary constraint to implementation is required level of funding. The sources of financing are largely determined by the size and scale of the proposed project. Public infrastructure projects that are considered primarily of local benefit, such as municipal wastewater or drinking water treatment and solid waste disposal, are generally financed by loans or grants from the gmina community budget, which in turn is funded by taxes, by 10 percent of the environmental fees and fines paid into the National Fund for Environmental Protection and Water Management, and by allocations from the national budget and the voivodship. When the environmental investment serves a larger area, such as several communities, part or all of a voivodship, or is considered to have special significance or costs that exceed the ability of the gmina to finance it, additional funding may be sought from other sources, such as the voivodship environment fund, the EcoBank, the National Fund, and the EcoFund. Because they require significantly more capital, investments for large-scale industrial, energy sector, and mining projects are much more difficult to finance from the combined environmental funds, even when half or more of the resources are provided by the enterprise.

## **H. Issues/Recommendations**

- The overall fluidity within government organizations, especially at mid-management levels and above, means that there is much less bureaucratic certainty than in the United States. The situation is more politically volatile and susceptible to political shifts, as evidenced in the lack of clear regulations or traditions governing personnel changes when the government changes. USAID should consider the potential impact of the fluid political situation and bureaucratic uncertainties on the sustainability of projects and the willingness and ability of organizations to undertake longer-term planning and financial commitments.
- Better integration of environmental considerations into health, transportation, and agriculture policies is needed. Conversely, MOSZNL appears to have difficulty incorporating transport and agriculture sector impacts on environment in its policies and programs.
- Participation of foreign partners in a project is an important factor in several regards. Local reactions run the gamut from "just give us the money" to assertions that money isn't needed but managerial know how is. It is important for participants in assistance programs to recognize that Polish professionals have a well-earned sense of pride in their capabilities and accomplishments. It should also be recognized that a foreign partner can bring higher status to the local organization, and that an outside opinion, even if essentially the same as that rendered by local experts, can carry more weight simply because it comes from "international" experts. The funding provided by foreign partners is often used to pressure domestic funding sources and decision makers for support, and to leverage resources from other partners.

---

**SECTION III**  
**PROJECT REVIEW AND SELECTION CRITERIA**

---

**A. Introduction**

Under the terms of reference, the environmental specialist's responsibility focused on identifying potential projects with significant benefits for improving the environmental health of the population in Poland. In order to accomplish this goal, the environmental specialist focused on two primary goals. The first goal was to assess project selection criteria already being used in Poland (see Annex A and Annex B), and to develop a set of criteria to be used in selecting projects for technical assistance. The second goal was to initially identify projects that might be prospects for technical assistance, and to assess the current status and assistance needs of these projects.

**B. Project Criteria**

**B1. Simplified Criteria for Initial Screening**

First, simplified criteria were developed to assist the Ministry of Environmental Protection in soliciting project proposals from other ministries, as well as from the National Fund, EcoFund, EcoBank, Voivodship Funds, voivodship environmental protection agencies, and gmina government offices. Specifically, these simplified criteria will allow regional and national agencies to submit projects for an initial screening by the ministry.

The simplified criteria were developed in collaboration with the Ministry of Environmental Protection to provide a cost-effective process for gathering data on projects from various agencies and to encourage as many agencies as possible to submit project proposals. The simplified criteria will also form the basis for the initial screening process to be carried out by the ministry and USAID.

As of 4 March 1994, the Ministry of Environmental Protection has sent out a description of the simplified criteria, with a letter requesting submissions, to the various ministries and national agencies. A second set of letters will be forwarded to all voivodship Environmental Protection Departments and Environmental Protection Funds. The ministry has requested that the simplified criteria be used to develop project proposals by 15 March. On 25 March, the ministry and USAID will meet to carry out the first project screening. Projects that pass this initial screening will be further analyzed by USAID, the ministry, and EP3 personnel after the 25 March meeting through the use of detailed criteria that the team also developed (see B2 on page III-3).

The description of simplified criteria and an information sheet to be completed by the submitting agency are included below.

## **B1a. Project Review Criteria for Technical Assistance to Poland**

Under the Lucerne Agreement, The U.S. Agency for International Development (USAID) has agreed to provide the Ministry of Environmental Protection with funds for technical assistance to promote the development, financing, and execution of environmentally beneficial projects. This document presents a brief description of the seven criteria USAID will use in evaluating potential projects for technical assistance.

**Priority 1. Environmental health benefits.** Projects that have a substantial impact on environmental health, that is, that lower the incidence of environmental and pollution-related illness, are the first priority of the Lucerne Agreement. These health benefits would result from a reduction of primary pollutants, including:

- **Air Pollutants:** sulphur dioxide, particulate matter (especially PM-10 particulates), nitrogen oxides, carbon monoxide, hydrocarbons, toxics, organic chemicals, and heavy metals.
- **Pollutants in Drinking Water:** reductions in the volume of polluted water, organic chemicals, heavy metals, toxic chemicals, and phenols.
- **Solid Waste:** reductions in chemicals that threaten to pollute major underground aquifers or drinking water resources.
- **Soil Contamination:** reductions in pollutants that adversely affect land usage, agricultural production, food safety, or habitation.

**Priority 2. Monetary value.** USAID is particularly interested in projects that are relatively small in scale (less than \$10 million), and for which available technical assistance could play a major role in leading to project completion.

**Priority 3. Replicability.** Projects that can be replicated regionally or nationally are a primary focus of USAID.

**Priority 4. Economic stability and profitability.** Because some industries and industrial sectors are undergoing considerable structural change, the technical assistance program is targeting firms that have financial security and are likely to be industrially competitive in the future. Public infrastructure projects should be economically viable.

**Priority 5. Project phase.** The technical assistance program, scheduled for a three-year period, has the goal of demonstrating achievable results over a relatively short time. Therefore, the program is targeting projects that already have completed pre-feasibility and/or feasibility studies and require specific technical assistance to achieve implementation.

**Priority 6. Project ranking.** The various agencies should rank the projects according to agency priorities. Each project should be given a ranking, with "1" being the project with the highest priority, a "2" being the project with the second highest priority, etc.

## **B1b. Project Review Information Sheet**

To be completed by the proposing agency. Please use additional sheets where required.

1. **Environmental health benefits.** Please provide information on the quantity and types of pollutants reduced by the project.
2. **Monetary value.** Please provide an indication of the value of the overall project.
3. **Replicability.** Please provide information on the replicability of the project and applicability of the project to other industrial facilities in Poland.
4. **Economic stability and profitability.** If the project is at an industrial facility, please provide general information on the profitability of the target firm, or its stability within the industrial sector. If the project is a public facility, provide information on its economic status.
5. **Project phase.** Please indicate the phase of the project (Research and Development, Prefeasibility, Feasibility, Implementation).
6. **Project ranking.** Please rank this project against others submitted by your agency. A "1" indicates the project with the highest priority, a "2" for the project with the second highest priority, etc.
7. **Additional information.** Please include available documentation on the project. This documentation could include:
  - Environmental assessments
  - Pre-feasibility or feasibility studies
  - Economic reviews

## **B2. Detailed Project Evaluation**

In addition to the simplified criteria discussed above, the team also developed a set of detailed criteria to be used in the second screening. This screening will identify projects that are environmentally beneficial from the human health perspective, include financial and managerial elements that lend themselves to technical assistance, and have a reasonable chance of project success within 24 to 36 months. Project success is considered achieved when implementation of the project is complete and environmental health-related pollution has been reduced.

The evaluation of projects for inclusion in USAID technical assistance to Poland is designed to be systematic and straightforward, and is based on a quantitative analysis of project elements. This document provides details and descriptions of the methodology proposed for evaluating potential interventions based on 36 project evaluation elements. For

each of these elements, projects are evaluated on a 1 to 3 scale, with 3 being the most appropriate for USAID technical assistance, and 1 being the least appropriate. A "0" indicates the category is not applicable, or the information is not known. The accuracy of the information provided is the responsibility of the project owner/borrower.

The evaluation elements are as follows:

**B2a. Financial and Management Criteria**

**1. Project value.** The total monetary value of the project. Because smaller projects are considered most appropriate at this stage for intervention, the selection criteria are proposed as follows:

- 1 = \$10.0 million or more
- 2 = \$2.5 million to \$10 million
- 3 = Less than \$2.5 million

**2. Time to implementation.** The number of months from the decision to finance until the project is completed and on-line:

- 1 = Over two years
- 2 = Six months to two years
- 3 = Six months or less

**3. Privatization potential.** The potential and phase of privatization of project owner (i.e., 49 percent private ownership):

- 1 = No existing or planned privatization
- 2 = No existing privatization, but existing plans for privatization in next two years
- 3 = Existing privatization

**4. Replicability.** An assessment of the replicability of the project elsewhere in Poland:

- 1 = Not replicable
- 2 = Replicable regionally and nationally
- 3 = Replicable nationally and internationally (CEE and NIS)

**5. Industry stability.** The economic stability of the industry and sector domestically and internationally as driven by price stability and government policies over the next three years:

- 1 = High likelihood of industry phaseout
- 2 = Moderate likelihood of industry phaseout
- 3 = Low probability of industry phaseout

**6. Project status.** The phase of the project being implemented:

- 1 = R&D or laboratory model phase
- 2 = Pilot or demonstration phase
- 3 = Full-scale phase

**7. Project phase.** The phase of the project:

- 1 = Prefeasibility
- 2 = Feasibility
- 3 = Implementation

**8. Management capability.** The capability of existing management in the implementing agency:

- 1 = Weak management capabilities
- 2 = Moderate management capabilities
- 3 = Strong management capabilities

**9. Management commitment.** The commitment of management in the implementing agency:

- 1 = Weak management commitment
- 2 = Moderate management commitment
- 3 = Strong demonstrated management commitment

**10. Profitability.** How profitable is the existing factory/installation? If project is a new installation, how profitable are owner's other installations?

- 1 = In debt
- 2 = Breaking even
- 3 = Profitable

**11. Project financing status.** The existence of other financing committed to the project:

- 1 = No financing committed
- 2 = Financial investment under current negotiations
- 3 = Other financing committed

**12. Future project financing likelihood.** The likelihood of outside financing in the future:

- 1 = No possible outside financing possible
- 2 = Possible outside funding may be available
- 3 = Strong possibility of outside financing

**13. Overall financing/management ranking.** The overall financial and management ranking of the project based on the average rating for financial and management criteria. The higher the overall ranking, the more appropriate the project for USAID technical assistance.

**B2b. Environmental Criteria**

Environmental criteria for the project are evaluated as above, except that a "0" is not included in the averaging. These criteria are as follows:

**14-21. Air protection.** The extent to which the project lowers air pollution emissions. This ranking, by pollutant, is as follows:

- 1 = Small reduction (less than 25 percent of existing emissions)
- 2 = Moderate reduction (between 25 percent to 75 percent of existing emissions)
- 3 = Major reduction (greater than 75 percent of existing emissions)

The air pollutants are separated as follows:

**14. Particulate reduction**

**15. SO<sub>2</sub>**

**16. NO<sub>x</sub>**

**17. Carbon monoxide**

**18. Hydrocarbons**

**19. Metals**

**20. Toxics**

**21. Organic chemicals**

**22-26. Water pollution.** The extent to which the project lowers water pollution emissions. This ranking, by pollutant, is as follows:

- 1 = Small reduction (less than 25 percent of existing emissions)
- 2 = Moderate reduction (between 25 percent to 75 percent of existing emissions)
- 3 = Major reduction (greater than 75 percent of existing emissions)

The pollutants evaluated are as follows:

**22. Water volume**

**23. Organics**

**24. Heavy metals**

**25. Toxics**

**26. Phenols**

**27-28. Solid waste.** The extent to which the project reduces solid waste impacts on the environment. This is determined through:

**27. Aquifer risk.** The risk of pollution entering the aquifer.

**28. Drinking water risk.** The risk of pollution entering into drinking water supplies.

**29. Soil contamination.** The reduction or mitigation of soil contamination.

**30. Population proximity.** The distance between the project site and downstream population centers, ranked as follows:

1 = No population center immediately downstream within 20 km.

2 = Small population center immediately downstream within 20 km.

3 = Large population center immediately downstream within 20 km.

**31. Overall environmental ranking.** The overall ranking of the project based on environmental criteria. This ranking is based on an average of the environmental criteria (14-30).

**32-36. Identification of technical assistance needs:** Rate the technical assistance needs in each category on a scale of 1-3:

1 = Weak need

2 = Moderate need

3 = Strong need

**32. Engineering design and assessment**

**33. Identification of funding**

**34. Project management**

**35. Priority setting**

**36. Other**

## **C. Project Identification**

During the course of the mission, the team identified a number of potential projects that should be considered in the initial screening. Of the projects identified, three appeared to have a strong rating based on both the simple and detailed selection criteria. A detailed description of these projects is presented below.

### **C1. Project 1: Huta Cynku, Tarnowskie Gory, Poland**

**Individuals met:** Joachim Ganszyniec, managing director  
Boguslaw Chelstowski, environmental specialist

**Introduction.** Huta Cynku is a specialized metal producer of 65,000 tons of zinc and other metals. Over the past five years, the factory has made considerable progress in improving its environmental performance. The factory has also made considerable inroads in forging links with the local community through a series of factory-town meetings attended by the factory's senior management.

The factory's management has explore the feasibility of expanding operations and deriving a less expensive raw material by recycling automobile batteries. This program would reduce the approximately 1,400 tons of lead and millions of liters of electrolyte that are discarded into the environment annually through the unregulated disposal of batteries. Thus the main environmental health aspect of the project is a significant reduction of lead in the environment, both as a land and water contaminant.

The factory proposes to use an Italian-based technology to crush and separate used batteries and to use the lead in normal metallurgical processes at the plant. The advantage of the process is that, assuming the costs of collecting the batteries are minimized, the plant will be able to acquire an important raw material at a lower price than if they were to purchase new materials. The cost savings to the plant are directly related to the price of lead on the open market: the higher the price, the greater the savings.

Initial environmental impact assessments and feasibility studies have been carried out. However, the factory management and surrounding community wish to have an outside environmental impact assessment to deal with outstanding issues such as the potential for PCB contamination.

**Next steps.** The Design Office of the City of Katowice has carried out some initial feasibility studies on the methodology, operations, and costs of collecting batteries throughout Poland for recycling at Huta Cynku. However, these studies require much greater detail in both operational set-up and cost estimation before a final business plan can be carried out. The next step for technical assistance is to carry out a detailed evaluation of the project's needs and develop the terms of reference for assistance.

## **C2. Project 2: Carbochem, Gliwice, Poland**

**Individuals met:** Erwin Sroka, director  
Jerzy Kropiwnicki, tech & operations manager  
Jan Maslon, technology manager  
Stefan Kieltyka, Mechanical Engineering Dept.

**Background.** Carbochem, a 50-year old plant, produced H<sub>2</sub>SO<sub>4</sub> before 1970. It has been "just barely" profitable since 1989. Since 1970 it has produced carbon black. Raw material is coal and coal oil. Coal is the primary fuel source. Products are dry carbon black and emulsions, according to customer needs. All production is for the domestic market. The plant's management claims that total Polish demand is approx. 40,000 tn/yr, and that the plant supplies 25 percent. It is producing 11,000 tn/yr, and design capacity is 25,000 tn/yr. Production equipment and working capital are limited. Costs are higher than world prices. Management claims this is due to obsolete equipment and that production costs are in line with world production costs. Coal is 6 percent to 10 percent of the total costs, and the pollution fees are an additional four percent of the coal cost.

The industry is state owned, but is currently in negotiations for privatization. A prior attempt at privatization was unsuccessful.

**Environmental project.** Carbochem started a fuel substitution project. It had three coal-fired stoker-type boilers, two with steam generation capacity of 5.5 tn/hr and one with 10 tn/hr capacity. It also had a large amount of combustible waste process gasses that it was flaring. The energy efficiency/environmental project consisted of gathering the fugitive process gases, the process gases to be flared, cleaning them through wet scrubbing, and using them as fuel for the boilers. The installation we saw consisted of the gas gathering and cleaning system (apparently for the two 5.5 tn/hr boilers) and a gas combustion chamber for one 5.5 tn/hr boiler, with a Russian-made, closed-loop flue gas monitoring and firing control automated system, which was working well. The problem was that the \$250,000 EcoBank loan, which was signed on the part of Carbochem by the director, Mr. Erwin Sroka, was to be paid in two years (which took 1.5 years to get approved and 6 months to disburse), plus the plant's own \$800,000 was not enough to complete the installation for the two boilers. Plant managers estimate that they still need \$150,000 to complete the project. Apparently they cannot get more money from EcoBank or any other bank, because they already received some, and this sends them to the back of the line.

The coal use and coal savings figures, as well as the cost of the investment, were not clear. Management claims a reduction in coal use of 10,000 tn/yr per boiler and a corresponding reduction in pollutants and their accompanying fees and fines, as a result of the fuel substitution conversion of one of the 5.5 tn/hr boilers.

**Conclusions.** On the pro side: The project is technically sound. The plant's engineering and construction capabilities are evident. Cost estimation and cost control during construction may be deficient. The plant's management is aggressive and committed to the project. The industry is well placed in the Polish marketplace.

project. The industry is well placed in the Polish marketplace.

On the con side: Replicability of the concept may be possible; however, there will be very few other carbon black plants.

**Recommended follow-up.** Technical assistance should be considered to assist with the economics, cost accounting and control, loan preparation, and other non technical or engineering elements of the project.

The environmental (air pollution) results/benefits of conversion should be considered to see how conversion may be used in other industries.

### **C3. Project 3: Zaklady Chemiczne "Alwernia" S.A., Alwernia, Poland**

**Individuals met:** Stanislaw Kania, chief environmental specialist  
Maria Paczek, environmental specialist  
Jacek Razny, marketing deputy director

The Alwernia chemical plant produces a wide range of fertilizers, chrome products for the tanning industry, and assorted chemicals for industrial uses. The facility has experienced significant environmental problems related to pollution of underground and groundwater resources and emissions of hydrochloric acid and other toxic chemicals into the air.

The specific environmental hazard discussed is a large pile of chromium-contaminated sludge covering an area larger than 0.5 km sq. This sludge contains highly mobile Cr (Cr+6 and Cr+4), which has resulted in significant contamination of groundwater. The groundwater problem has affected nearby communities to the extent that the factory was forced to install a portable water supply system to nearby residential areas.

The factory is seeking a technology for recycling the stored sludge. At present, the factory has installed a recycling system for the Cr-contaminated sludge presently being produced. This recycling process allows the sludge to be reduced to a non-toxic state, and the factory hopes to sell the recycled material to the building material industry. Additionally, the factory hopes to recycle the large amount of stored sludge in a similar manner. The key limiting factor in the implementation of a large recycling process is the extent to which the recycled material can be sold to outside users. The sale of recycled material is dependent on developing a cost-effective recycling process and carrying out a marketing assessment of the costs and benefits of recycling.

The factory is interested in USAID technical assistance to help the marketing department develop a business plan for recycling, combined with a public awareness program to reduce market resistance to purchasing such non-toxic material. The technical assistance would focus on the cost effectiveness of a recycling program, identify potential markets and end users, and assess the overall approach to marketing the recycled material.

**Follow-up actions.** The next step is to carry out a detailed analysis of the business opportunities presented by recycling as well as a technical analysis of the sludge pile. These actions will allow follow-up missions to assess the feasibility of further technical assistance.

---

**SECTION IV**  
**PRELIMINARY WORK PLAN**

---

This section outlines a preliminary work plan for the Poland portion of Technical and Investment Assistance in Central and Eastern Europe (TIACEE), in support of the Environmental Action Program (Contract PCE-5559-Q-00-3022-00, Delivery Order 3).

**A. Methodology**

EP3 support to the Eastern Europe PPC has started with the development of evaluation criteria for environmental projects in Poland. The criteria, presented in Section III, will be a tool for (1) identifying existing environmental projects in the various Eastern European countries that conform to the Lucerne EAP criteria and are recommended by the appropriate agency in each country and (2) ranking their probability and potential for becoming bankable through EP3/EAP technical assistance.

After the February-March 1994 visit, a draft of this evaluation tool will be "informally" submitted by USAID/ENI/EUR to Lesznik Banaszak, director of the Department of International Cooperation of the Ministry of Environmental Protection, Natural Resources, and Forestry in Poland. Between February 25 and March 22, the ministry will use this tool to gather information, organize data, develop the Poland "list" of projects for EP3/EAP, and prepare terms of reference for the type of EP3/EAP technical assistance needed. This list and the terms of reference will be reviewed in Warsaw by USAID/ENI/EUR/EN, EP3/EAP, and the ministry's technical staff before they are submitted to USAID Warsaw on or about March 25, 1994.

Once this list is officially received by EP3/EAP, three or four projects will be selected and agreed upon with the ministry and industries/entities, and plans will be made for initiating technical assistance.

The assistance will consist of whatever pre-investment activities are required to get a concept/project to a "financeable" stage. The end products should be loan applications, which will have been submitted to financing institutions, and clarifications of questions/information required by the financing institutions in their "loan approval" process. These pre-investment activities can include but need not be limited to:

- Technical review of existing studies, projects, or plans to determine current status.
- Technical analysis of identified environmental problems and their proposed solutions, with an emphasis on implementing pollution prevention measures before treatment.

- **Technical analyses of modifications to existing equipment or design/sizing of new equipment.**
- **Economic/financial analyses of proposed modifications, with corresponding market studies, business plans, cash flow analyses, sensitivity analyses and others.**
- **Training of Polish personnel/staff in any field or discipline that would directly contribute to achieving positive specific quantifiable results from industries, entities, or institutions whose projects have been selected.**
- **Identification/selection of co-financing or supplementary funding.**

## **B. Specific Activities**

In late March, before the meetings with the ministry, EP3/EAP's management will start the search and hopefully contract the services of a permanent or semi-permanent EP3/EAP coordinator to provide consistent and uninterrupted support for EP3/EAP technical assistance. This individual will report to the EP3/EAP core team and will be responsible for coordinating all EP3/EAP activities in Poland.

The EP3/EAP coordinator's first activities will include preparing a one-year detailed work plan and schedule and identifying possible counterpart and/or cooperating entities in Poland, such as professional associations, chambers of commerce, technical groups, and universities. The EP3/EAP coordinator will also be influential in identifying Polish technical consulting and contracting expertise as necessary.

With the concurrence of the EP3/EAP coordinator, a task team will be assembled. The team will come to Warsaw in early April to support the coordinator in making initial contacts with the owners of the projects and in obtaining the industry/entity's management concurrence on the environmental project to be implemented. Once this is done, a memorandum of understanding will be drafted, agreed to, and signed. Signatories to this memorandum will be USAID/ENI/EUR/DR/ENV and the Polish industry/entity. The task team and the EP3/EAP coordinator will then develop a work plan for activities of each selected project, leading to preparation of the loan request documents.

EP3 will provide technical assistance to bring as many of these selected projects as possible to implementation. This assistance will be provided through the efforts of the EP3/EAP coordinator and visits or missions by task teams of Polish consultants and/or contractors, active participants/representatives from the industry/entity, and supported or supplemented as needed by experts from the United States. The EP3/EAP core team and the EP3/EAP coordinator will provide continuous technical support to each project, and the visits or missions to Poland of U.S. experts will generally be for 14 to 21 days. Each task team will have a team leader, up to three Polish consultants with proven technical expertise in the specific environmental, engineering design, economic, financial, or other technology involved, and whatever U.S. expertise is needed to supplement the Polish capabilities.

These task teams will be contracted by EP3/EAP core in response to the needs and requests of the EP3/EAP coordinator. Although the initial team leaders will probably be from the United States, EP3 expects that Polish consultants or contractors will perform as task leaders after the first few missions. The task teams will usually be kept to a maximum of five members. EP3-HBI will directly hire or subcontract with U.S. and Polish consultants as required.

Before each mission, the team leader, whenever possible, will travel to the EP3/Arlington offices for briefings and discussions with EP3/AID's core staff and will then finalize the mission's work plan/schedule with the EP3/EAP coordinator in Poland. The team leaders will generally go to Poland ahead of the other team members to work closely with the EP3/EAP coordinator to set up the necessary meetings, coordinate the Polish technical contribution, and coordinate with the local USAID offices.

The team leader will coordinate all his or her team's activities through the EP3/EAP coordinator; however, the team leader will be responsible for the activities of the task teams' personnel, for preparing the necessary reports, for debriefing the local USAID officers, for identifying the need for Polish technical services to perform required follow-up activities, and for notifying the EP3/EAP coordinator of these needs. After obtaining concurrence approval from the EP3/EAP core team, these services will be assigned by the EP3/EAP coordinator to the Polish subcontractors or consultants.

The team leader will have operational responsibility, including supervision/coordination of the other team members (local consultants, U.S. pro-bono experts and/or other U.S. consultants). The team leader will also ensure the active participation of Polish consulting/engineering team members in all technical activities to maximize transfer of expertise.

**SECTION V**

---

**FINANCING OPTIONS**

---

## SECTION V FINANCING OPTIONS

---

An important issue in Poland is the availability and cost of domestic and international funds for financing environmental investments. The banking system is still adjusting to the new market economy, and many serious problems restrict access to funds and drastically raise their costs to borrowers. These problems include:

- **Education and orientation of Polish bankers.** Poland has a serious lack of bankers trained in Western techniques of project evaluation and financing. The "traditional Polish banker" is trained to monitor the proper allocation of government grants to a company rather than to evaluate the borrower's debt service capacity and structure financing to allocate risk. Bankers' fear of being responsible for non-performing loans is a major stumbling block in the disbursement of loans, whether funds are domestic or foreign. As a result, banks and environmental funds are very slow to issue loans and disburse credit lines.
- **Capital inadequacy in the banking system.** Only 24 of the approximately 1,600 major, specialized, and cooperative banks meet the National Bank of Poland's (the country's Central Bank) capital requirements. Even these figures overstate the banking system's actual financial viability, since a major portion of deposits are actually short-term government demand deposits targeted to meet the immediate cash requirements of specific industry sectors or plants. Thus, these funds will be withdrawn quickly and are effectively unavailable for lending. About one third of loans are non-performing, threatening the profitability and viability of many banks.
- **Poor loan terms.** Current commercial loans have a rate of 50 percent and maximum terms of five to eight years. Even with inflation running 20 to 30 percent per year, these terms create serious cash flow hardships in the early years of a project.

The following sections describe the structure of the Polish banking sector and the major environmental funding organizations. Additional information on funding options is found in Annex E.

### A. **National and Voivodship Funds for Environmental Protection and Water Management**

The National Fund for Environmental Protection and Water Management (the National Fund) was created in April 1989 as an independent financial institution. The Fund supports and helps implement policies in environmental protection and water management resulting from domestic laws and international agreements signed by Poland.

The Fund is a structurally independent unit. The Minister of Environmental Protection, Natural Resources, and Forestry convenes and dismisses the Fund's Supervisory Board and, on the board's motion, convenes and dismisses its Board of Directors. Each year the Fund reports on its activities to the ministry, the Council of Ministers, and the Sejm (Parliament).

Each voivodship (province) has a parallel fund for activities in that province. These funds share revenues with the National Fund and generally have similar priorities and procedures.

**Sources of income.** Most of the resources of the National Fund come from ecological fees and penalties. Fees for air, water, and soil usage are collected by Environmental Protection Departments of the Voivodship Offices. The local offices decide on waste disposal conditions and allowed emissions. The penalties for exceeding the permitted levels of pollution are imposed by the Voivodship Inspectorates of Environmental Protection. Revenues from fees and penalties are divided separately in each voivodship. About 55 percent of these funds go to the local voivodship environmental funds, 35 percent to the National Fund, and 10 percent to other ecological funds. Other sources of income include license fees for using natural resources and exploitation fees for extracting minerals. The ecological account is also funded from loan repayments and Fund investments.

Part of the Fund's income from the voivodships is directed by law to separate sub-accounts. For example, fees and penalties for dumping salted water from the mines are targeted to solve that problem; fees and penalties for emitting sulphur dioxide and nitrogen oxides are targeted to desulphurization and denitrogenation devices.

The remaining income from fees and penalties is reserved for tasks announced by economic agencies in response to applications for loans or subsidies. The loan offered by the Fund cannot exceed 50 percent of the estimated cost of the project. (An additional 30 percent of the cost, however, is available from EcoBank.)

**Disbursement mechanisms.** Fund investments are primarily low-interest loans. The Fund believes that a loan disciplines the borrower to meet its schedules and costs. The borrower must meet scheduled milestones to receive the next loan installment, giving the Fund substantial control in resolving unexpected problems. Loan repayments are recycled by the Fund to support other environmental activities. Borrowers are required to provide a financial analysis of the project that specifies sources and amounts of revenues (e.g., user fees for sewage treatment installations or waste-disposal sites) and a schedule for debt repayment. Interest rates on the loans are typically 20 to 80 percent below the commercial interest rate announced by the National Bank of Poland. Currently, Fund interest rates are 7 to 35 percent, compared with a commercial interest rate of 50 percent.

The Fund works closely with its 44 percent-owned affiliate, the Environmental Protection Bank (EcoBank). The Fund subsidizes the interest rate on loans made by EcoBank. The budget allocated to loan subsidies and grants is determined each year by the Supervisory Board.

**Fund priorities.** The major priorities of the National Fund include:

- Nationwide, regionally significant, or large enterprise investments that could not be accomplished solely with local resources. (Small projects can be supported by the voivodship and local environmental protection funds.)
- Investments in regions with severe environmental degradation, such as Silesia, where the critical needs exceed the capacity of individual voivodships.
- Environmental upgrading of some 80 industrial plants deemed most threatening to the environment by the State Inspector of Environmental Protection.
- Investments to restructure and modernize, thereby conserving or rationalizing the use of natural resources and reducing pollution. (Such projects have priority over so-called "end-of-pipe" strategies, which simply neutralize the already-produced pollution.)

The Fund assumes that the environment will gradually improve, in part as a result of its activities. Income from fees and penalties, which now supply most of the Fund's resources, will diminish as enterprises reduce pollution through Fund-supported investments. In addition, fees and penalties for commercial use of water and sewage disposal will be handed over to the Regional Water Management Authorities, reducing Fund resources by another 40 percent and limiting the Fund's involvement in water management activities. Thus, the Fund will be looking for new sources of financing. This is one reason it invests in environmental companies. It also intends to increase its shares in large, profitable enterprises to guarantee a stable income and its ability to support environmental investments in the future.

The National Fund intends to provide hard currency credit to its clients and is seeking foreign grants. It has established an International Cooperation Committee for this purpose. It has also created an Ecological Guarantee Fund to provide loan guarantees for foreign lenders.

#### **B. EcoFund (Polish Debt for Equity Swap)**

The EcoFund is a result of the Paris Club agreement that reduced Polish debt by 50 percent. This agreement had a provision to allow an additional 10 percent debt reduction for environmental protection investments. This provision is optional and must be negotiated individually with respective creditor countries.

The U.S. government, through the Department of Energy, was the first to approve the procedure and has begun payment. The funds are untied, and may be used for projects other than those sponsored by U.S. companies or for U.S. equipment. The U.S. released \$6.5 million in 1992 and \$13 million in 1993. Both France and Switzerland have recently signed the agreement. The French had swapped about 1 million francs (\$173,000) and the Swiss about \$685,000 by the end of 1993. Once Poland makes principal repayments, the

funding will be much greater. The U.S. total is projected at \$360 million by 2009, the French at \$54 million, and the Swiss at \$52 million. Recently the Italians have shown interest in the concept and other countries may join. Twenty-five projects in Poland are now supported by EcoFund in the targeted areas of (1) carbon dioxide emissions, (2) Baltic clean up, (3) greenhouse gases, and (4) nature preserves.

The funds are disbursed in the form of grants or low-interest "soft" loans, and therefore are much sought after by borrowers. They are limited to 30 percent of total project costs for commercial projects, but may comprise 50 percent for municipalities and 80 percent for nature preserves. Grants are in the range of ZL 1-20 million.

Funds are available only for the investment phase and not the feasibility stage. In addition, supported projects must be 100 percent funded.

#### **C. EcoBank (Bank Ochrony Srodowiskz - BOS)**

The bank is a joint venture of the National Fund for Environmental Protection and Water Resources Management (44.4 percent of the shares) and other interested companies and shareholders. It began operations in late 1991. It operates as a full-service bank, but its primary mission is to support environmental projects such as:

- Modernizations and investments to protect air, water, forests, and natural resources.
- Establishment of industrial facilities for local manufacture of environmental equipment, including measurement and control devices.
- Storage and use of waste products.
- Other environmental improvement projects.

The bank currently has about \$22 million in paid capital. Its maximum credit per project is about \$2 million. No more than 15 percent of capital may be committed to any one project. The bank will not provide more than 20 to 25 percent of the funding for any one project. The loan rate is between 7 to 30 percent with government authorities receiving lower rates than commercial entities. The National Fund provides subsidies that permit the lower rate. Loans were ZL 111 billion (\$6.5 million) in 1992 and are expected to be ZL 200 million (\$12 million) in 1993. Loans can be for up to four years with one year's grace.

Since 1991, the bank has supported about 150 projects with total funding of about ZL 2 trillion (\$100 million). Of the \$60 million in loans made in 1992, about 40 percent went to the environmental sector, half of which were used for water protection.

#### **D. Public and Private Commercial Banks**

The Polish banking system is organized around the National Bank of Poland (NBP),

nine major banks, five specialized banks, and 1,600 cooperative banks. Approximately 100 new banks were established in the past four years, most of which are private, and some are partly foreign-owned.

Until the 1980s the NBP, or Central Bank, was a monopoly provider of bank services. Reforms began with the creation of the PKO State Bank from the NBP. In 1987 nine of NBP's provincial branches were split from NBP's network and began to operate as independent state-owned commercial banks. Today these banks handle 90 percent of the banking business in Poland, and represent 30 percent of the Polish banking system's equity.

In 1992 the nine state banks were transformed—with the intention of privatizing them—into joint stock companies wholly owned by the Treasury. Three of the nine privatizations will have been completed by mid 1994. As part of the restructuring, the government has encouraged twinning these banks with Western banks to obtain technical know-how, modern controls, and capital infusions. Banks from Britain, Denmark, Holland, Ireland, and Italy have entered into three-year twinning arrangements. These have not gone smoothly. For example, Bank Slaski was twinned with the Dutch ING bank. ING received 25 percent of the Bank Slaski equity at its issue price. When the stock price soared to 13 times the issue price, the deal came under intense public criticism, leading to the finance minister's resignation.

The profitability of these major banks is very high, fluctuating between 23 and 26 percent. By contrast, German banks are happy when they show a 4 percent profit ratio. The other banks are not nearly so profitable. The combined profitability of the major banks and specialized banks is only 12 percent, and the other banks have an average profitability of 1.5 percent. The hefty profits of the major banks are due to the very high loan rates of 35 to 67 percent, with costs of money of approximately 50 percent. Loans are made primarily to the public sector.

Bank loan portfolios are troubled; 30 to 50 percent of loans are non-performing. ZL 11 trillion (the conversion rate is approximately 22,000 zlotys/dollar) were used to restructure bad debts, with the banks required to either convert non-performing loans into equity, sell these debts, or force the borrower into bankruptcy. These problems are caused by several factors: unrealistic repayment schedules, high interest rates, and a concentration of loans in troubled public sector firms. High loan loss provisions for some banks have given them a negative equity position. Only 24 banks meet the Central Bank's capitalization requirements. There is, however, little supervision from the central authorities. About 70 percent of bank deposits held by private businesses and individuals are not covered by a deposit insurance system.

About one third of bank credit is diverted by government order to state-sponsored projects. Very few loans are made to private businesses, and only an estimated 5 percent of the Poles have a bank loan. Loans are generally based not on the credit worthiness of the specific project but on existing collateral and security offered by the borrower. Thus many organizations are reluctant to borrow for environmental projects that do not generate income.

The Polish banking system suffers from having too few depositors while having too many banks for the size of the internal markets. Major consolidations are likely in the near future, with only two to four major banks likely to survive mergers and acquisitions among the 15 major and specialized banks.

The banking system's ability to lend will be further constrained by the Polish government's fiscal problems. Poland anticipates its public budget expenditures will reach \$46.14 billion in 1994, representing 49.8 percent of GDP in a country with a per capita GDP one third that of Greece or Portugal. Of these expenditures, 15.8 percent are earmarked to support local and parabudgetary funds, and 19 percent will go to service the domestic debt accumulated since 1991. As a result, operating expenses and investments will seriously decline. Maintenance will represent only 6.3 percent of the budget, while investments are targeted at 7.3 percent. GDP grew at an impressive pace of 4 percent in 1993, but the same rate of growth seems unlikely this year for the following reasons:

- Inflation is high.
- Domestic savings are low.
- The banking system is extremely inefficient.
- Domestic loans to business are limited and expensive.

Government sources of budgetary income are also subject to question:

- Indirect taxes and tariff receipts are assumed to rise by 42.1 percent, or 11 percent more than the nominal GDP growth rate.
- Dividend receipts are expected to rise by 12.7 percent in 1994. In fact, these dividends are effectively a tax on the fixed assets of the firms rather than a tax on operating income, thus affecting the firms' abilities to operate on a sound business basis.
- Banks are reluctant to buy long-term government securities.

The government will have to make politically unpopular moves to reduce expenditures, cut subsidies, and increase taxes. Its ability to support the commercial banking system will therefore be limited.

Nor are public sector industries a likely source of capital for commercial banks. Public sector output was down by 6.3 percent, and five million jobs were eliminated. By comparison, private sector output increased by 35 percent and 2.2 million were created in addition to 300,000 taken over through privatization. This year's public sector performance will be substantially worse, since the recently privatized firms represented 25 percent of the profits generated by state-owned public enterprises.

Public attitudes further constrain the ability of banks to lend. A 1993 survey showed only 8 percent of the population approved of deriving income from profit on capital. It showed that 88 percent believed the only source of income should be employment, and 58

percent believed that prices should depend on production cost rather than demand. The public in general must undergo significant re-education in market economics.

In the next few years several banks could easily collapse. While there are no simple answers to these problems, several actions could help speed the pace of economic transformation. First, properly constructed guarantee funds could go a long way to protect depositors and attract more private funds into the banking system. This will allow banks to lend for longer terms at lower spreads, and to adjust loan repayments more closely to project cash flows, in turn reducing the number of non-performing loans and loan losses. Second, the National Fund could provide its loans at lower rates and longer terms, thereby encouraging environmental investments. Also, the Western countries could assign "credit and disbursement" loan officers to Poland to train local bankers.

---

**ANNEX A**  
**PROJECT SELECTION CRITERIA**  
**KRAKOW VOIVODSHIP ENVIRONMENTAL PROTECTION FUND**

---

**A. Summary of Applied Procedures Used by the Krakow Voivodship Environmental Protection Fund**

Stages 1 and 2 facilitate the selection of projects that fulfill the basic parameters stipulated by the Fund. They may only be projects that bring significant benefits to the environment, are in agreement with basic priorities of the Fund, and fulfill formal and procedural demands—which are often determined by the limitations of the Fund. In principle, there is no place in the Fund's portfolio for projects that are rejected at these stages.

At Stage 1 the Fund is provided with general information about the venture, which is contained in the Projects's Information Sheet. Before moving to Stage II, the applicant is obliged to provide detailed information, completing a full subsidy application formula, which must pass through six tests of evaluation before acceptance.

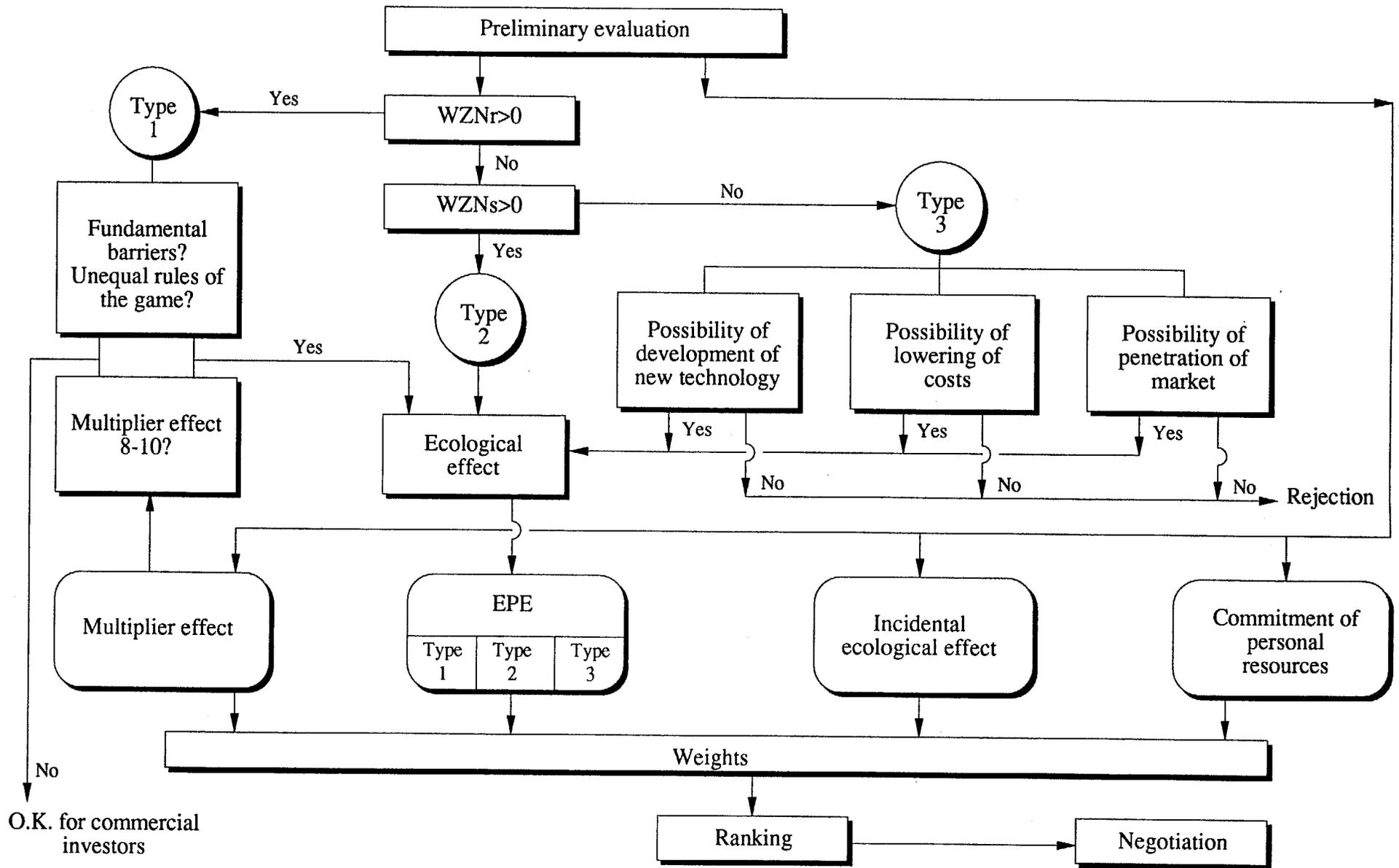
The value of the projects that meet the basic demands and successfully pass Stages I and II as a rule exceed the financial possibilities of the Fund. Because of this, the goal of Stages III and IV of the evaluation is to compare and rank the ventures according to clear criteria as well systematic procedures. The Fund employs a collection of four basic criteria of evaluation, together with a numerical weight system. The final effect is a point system, which allows ranking of applications according to their quality. The final evaluation and selection will always include subjective elements, although the point system guarantees that the criteria of the evaluation will be in compliance with a systematic system.

The basic criteria used in the evaluation of a project are: the efficiency index of the ecological project, side effects on the environment, the multiplier effect, as well as the commitment of the applicant's own funds.

The efficiency index of the ecological project takes into consideration both the ecological effect and the cost of its attainment. It allows comparison of proposed projects and ranks them in order to attain an improvement in the condition of the environment at the lowest cost. This allows the limited funds of the Fund to be used to their utmost. Applying a single-digit measure of efficiency to the projects, the Fund is able to obtain a fundamental division of the investments into three types: 1, 2, and 3. Type 1 projects pay the most, type 3 the least. Type 2 projects occur most frequently within the Fund. This is a group of projects payable in terms of criteria of social costs and benefits, but not profitable according to traditional financial indicators.



# Stage III: Diagram of Decision Process



95

The Fund allows deviations from these principles in certain cases. Without such deviations, procedures and criteria would be a bit too crude to meet the needs of a complex and flexible decision-making process in the contemporary public sector. The remaining criteria—especially that of the multiplier effect—allows the incorporation of certain special type 1 and 2 projects into the range of the Fund's interests. The negotiations and the signing of agreements conclude the project selection procedure.

## **B. Fund Mission**

The mission of the Fund is to distribute financial assistance for projects contributing significant and lasting ecological benefits, which cannot be realized because of existing market and institutional barriers.

## **C. Basic Goals and Priorities**

The fund has the following goals and priorities:

- The financing of ventures compatible with the political-ecological priorities of the government and voivodship as well as within the sphere of operations defined by the Statute of the Voivodship Fund for Environmental Protection and Water Management in the voivodship of Krakow.
- The rendering of subsidies in the form of immediate grants, preferential loans, or other capital investments for projects that bring a fundamental improvement to the state of the environment in the Krakow voivodship and have not been able to find sufficient financing among commercial investors.
- The stimulation of general growth of expenditures for the protection of the environment—through the financing of projects directed by the principle of "supplementary financing." Subsidies allocated by the Fund in any form may not be more than 50 percent of all expenditures necessary for the realization of the project. Grants from the Fund may play the role of leveraging financing and insuring other sources of investment financing serving the protection of the environment. A particular priority is the commitment of the applicant's own resources.
- The effective utilization of entrusted assets, understood as maximizing environmental improvement, with every cash expenditure. In certain situations, the Fund will specify a procedure for a competitive tender offer with the goal of maximizing ecological effects through the utilization of available resources.
- The realization of projects that are conducive to the introduction of technological and organizational environmental protection and have enduring potential in the Krakow voivodship, particularly pilot investments and models that contribute to the initiation of new environmentally friendly technology and are easy to replicate,

or to the development of regional industry arrangements facilitating the protection of the environment.

- The realization of projects that eliminate sources of environmental pollution and do not mitigate its effects.

#### **D. Origin of Applications**

There may be two basic sources of origins of applications:

1) **At the initiative of the Fund.** The application is then a reply to an advertisement of a competitive tender offer for solving general defined problems or realizing particular projects.

2) **At the initiative of the applicants themselves.** Applications submitted to the Fund for the execution of a singular project, and benefitting from its effects, or by other institutions co-financing the project.

#### **E. Applications Initiated by the Fund**

Types of projects capable of becoming objects of competitive tender offers are identified every year by the management of the Fund by consulting with relevant institutions and organizations in the public sector—such as the Department of Environmental Protection and Water Management of a Voivodship Office, self-administrative units, the National Fund of Environmental Protection and Water Management, water and sewage companies, communal enterprises that are the property of territorial municipalities, ecological NGOs—as well as with the consultants of the Fund. The opinions of these institutions, organizations, and units serve as the guiding principles for selecting the most effective types of projects in the individual sectors of environmental protection, with particular consideration of their possible costs and effects. The opinions allow the Fund to determine priority projects and supply models against which future applications can be evaluated. They also serve for the elaboration of loosely-defined strategies, the listing of priority ventures, and the formation of the Fund's yearly activity plans. The identification of priority projects requires the agreement and acceptance of the Supervisory Council.

#### **F. Applications at the Initiative of the Applicant**

If any type of applicant or co-financing institution wishes to file an application at their own initiative, they must discuss their propositions with [a person appointed by the President of the Fund] before formally filing the application. The applicant (or co-financing institution) should be informed that the Fund may decide to advertise a public competitive offer for realizing a proposed or similar project.

Formal responsibility for completing an application lies with the applicant.

## **G. Prerequisites Required of the Applicant**

The prerequisites demanded of the applicant differ not only according to the type of project but also according to the form of subsidy offered by the Fund.

Subsidies offered by the Fund are allocated to the applicant on conditions more advantageous than commercial market conditions valid at the moment of allocation. Subsidies may be allocated in different forms. These forms may be immediate subsidies, preferential loans [and credit], the purchase of obligations and unit shares of business, as well as the contributions of shares to companies. Particular differences are specified in separate documents approved by the Supervisory Council: "The Principles of Loan Allocations" and "The Principles of Grant Allocations." Examples of sizable grants allocated in the form of preferential loans are illustrated in Annex 1. This Annex shows which types of subsidies are covered by preferential loans, when "preferential treatment" takes the form of a lower interest rate or a lengthened period of repayment.

Prerequisites concerning the technological and ecological information connected with the realization of a project are the same for all applicants regardless of the form of the subsidy allocated by the Fund. The differences are mainly in the range of economic information required.

In the case of immediate subsidies, prerequisites will be simplified to include an economic analysis of the project with a business plan containing a cash-flow statement and calculations of the project's profitability. The applicant should also supply authenticated information about the institutions participating in the financing. The financial situation of the applicant and credit capability remain outside of the interests of the Fund unless they have an influence on the conditions of the venture's execution and operation.

## **H. Preliminary Qualification**

Stage 1 encompasses the period from filing project proposals with the Fund to correctly filling out the complete, relevant application forms.

The basic goal of the preliminary qualification is to evaluate the undertaking in terms of the Fund's mission, basic goals, and priorities as well as formal legal requirements, before having the applicant fill out a complete application form. The preliminary acceptance of the project means only that the project meets the basic prerequisites allowing its further examination by the Fund. [The applicant must be informed that the preliminary acceptance of the project is not the same as the decision on granting subsidies. The final decision on the acceptance of the Fund depends on the results of the following stages.]

The supplementary goals of stage 1 are:

- To divide the projects proposed by the applicants into three groups designated for further examination according to parallel paths—a competitive offering, individual evaluation, and simplified evaluation.

- To determine—for every project—the form in which subsidies may be allocated and to indicate to the applicant the appropriate application form.

## **I. Preliminary Qualification**

The applicant should supply a completed Project Information Sheet (PIS [in Polish, KIP]), including basic information on the project and the applicant. An example of a Project Information Sheet is presented in the annexes.

[An individual appointed by the President] should decide whether the project merits closer scrutiny on the basis of information supplied in the PIS. The main criteria guiding his assessment are:

- Is the project compatible with the mission, the statute designating the domain of the Fund's activities, and the basic priorities of the Fund?
- Does the project have the potential to attain a significant improvement of an environmental condition?
- Are there fundamental reasons that the project will not be profitable and cannot be executed without external assistance?
- Is the project in agreement with pronounced gmina and regional political goals?
- Will the applicant fulfill the duties of making payments and fines that will constitute the receipts of the Voivoidship Fund?
- Does the venture possess the possibility of fulfilling the criteria of effectiveness? To judge this, the applicant's predicted expenditures and receipts are compared with the expenditures and receipts attained by other projects pursuing similar ecological goals. Such a comparison is possible due to the yearly identification of the most effective types of projects in specific environmental protection sectors.

[The individual appointed by the President] should verify the information included in the Project Information Sheet in consultation with the appropriate public sector institutions. The information should be concise and reliable. Any source of doubt should be eliminated by the applicant. If the quality of the information does not engender reservations and the project fulfills the criteria of the preliminary qualification, [the individual appointed by the President] approves it for further examination according to one of three possible paths:

- Path 1: verification and selection by way of competitive tender offer
- Path 2: individual evaluation
- Path 3: simplified evaluation procedure

In every case [the individual appointed by the President] sends a written notice to the applicant.

---

**ANNEX B**  
**PROJECT SELECTION CRITERIA**  
**KATOWICE REGIONAL FUND FOR ENVIRONMENTAL PROTECTION**  
**AND WATER MANAGEMENT**

---

(approved by resolution no. 1/93 of the Supervisory Board of the Regional Fund for Environmental Protection and Water Management in Katowice, dated August 13, 1993)

Projects to be financed from the Regional Fund for Environmental Protection and Water Management (FOŚiGW) are selected according to the following criteria:

**A. Priority**

The order of priorities is considered during development of the Fund's action plan and list of priority tasks. The first to be implemented are projects that aim at preventing environmental pollution and eliminating pollution at the source. FOŚiGW financing covers implementation of the technology involved in the tasks.

The list of priorities is as follows:

1. Air protection. Reducing low emissions by:
  - Converting coal-fired boilers into gas- or liquid fuel-fired ones
  - Linking heating systems to enable supply of heat from different sources
  - Making gas, liquid fuel, heat, and electricity available for municipal purposes
  - Promoting use of smokeless fuel
  - Improving the combustion process
  - Remodeling power facilities into co-generation (heat and power) plants
  - Constructing exhaust gas cleaning plants (desulphurization, dust removal, after-burning in order to eliminate CO and hydrocarbon emissions)
  
2. Water management and conservation.
  - Constructing waste water treatment plants in areas of water retention, at river sources and at surface and ground water intakes.
  - Constructing stages II and III of biological treatment facilities, particularly above water intakes and potable water reservoirs.
  - Constructing a network of sewers to make fuller use of the capacity of the existing municipal waste water treatment plants.

- Taking actions aimed at increasing water resources and improving flood safety measures.
3. Waste management and protection of the land surface.
    - Waste management and neutralization, and reducing waste generation.
    - Actions to reduce the threat to the environment posed by waste dumps.
    - Environmental management of degraded areas.
  4. Introduction of clean technologies, including.
    - Technologies permitting use of alternative energy sources.
    - Modern technologies aimed at energy saving and, maximum reduction of waste generation.
  5. Environmental audits, the operation of regional environmental monitoring services.
  6. Environmental projects, particularly those arising from international agreements.
  7. Protection against noise pollution.
  8. Protection and restoration of natural resources, particularly forests.
  9. Extraordinary environmental threats.
  10. Health monitoring and preventive health care for children.
  11. Scientific research and dissemination of the results to facilitate technological progress in environmental protection and water management.
  12. Environmental education and promotion of environmental activities.
  13. Improving methods of environmental management and environmental risk management.

**B. Formal Requirements of the Regional FOŚiGW**

- **Legality.** Construction permits should be issued for all projects financed from the Regional FOŚiGW, and environmental requirements should be satisfied both while the project is being implemented and after its completion.

- **Multiple funding sources.** The projects should be financed from many sources; the Regional Fund's participation in any project does not exceed 50 percent.
- **Compliance with fund requirements.** Access to Fund resources depends on the applicants meeting their obligations to the Fund.
- **Coordination.** Tasks should be coordinated with comprehensive environmental programs and projects.
- **Full documentation** is a condition for initiating the Fund's decision-making process.

**C. Project Scale Criterion**

Priority will be given to:

- Regional projects or projects going beyond the local scale
- Pilot or model projects

**D. Technical and Economic Criteria**

- **Assessment of project effectiveness.** In particular, cost-effectiveness assessment based on the declared project cost and the duration of the project.
- **Assessment of the financial condition of the applicant.**
- **Concentration of fund resources** - to complete the projects which have been initiated.
- **Technological and technical level.** The projects should involve the best available technological and technical solutions. Preference is given to Polish solutions and to projects aiming at improving the efficiency of existing facilities.
- **Involvement of Polish investors.** Preference is given to Polish contractors.
- **Degree of necessity.**
- **Cost of achieving the environmental effect.**

Translated by: Letterman, Translators & Interpreters  
30-062 Krakow, al. 3-Maja 9, suite 408 tel/fax: (12) 34-18-06

---

**ANNEX C**  
**MEETINGS HELD AND CONTACTS**

---

**USAID Team, 13 February 1994**

Parks, Evans, Maal, Jakubowicz, Van Orsdol

This initial team meeting discussed the overall structure of the mission and the major goals to be achieved during the three-week period. These goals are:

- Assess the status of EAP in Poland
- Encourage Ministry of Environmental Protection to continue its activities on the EAP
- Develop evaluation criteria for selecting projects for technical assistance
- Identify a few potential projects for the first interventions

**Ministry of Environmental Protection, 14 February 1994**

Leszek Banaszak, Minister

USAID team: Parks, Van Orsdol

This initial meeting assessed the status of the EAP in Poland and the activities of the Ministry in developing a list of potential projects. It was agreed that the list of projects from the Lucerne meeting should be scrapped and that a new list should be developed.

**Future actions.** Banaszak agreed to hold a meeting with various ministries and agencies to assess technical assistance needs in the environmental area.

**Harvard Institute for International Development, 14 February 1994**

Glen Anderson, Policy Advisor

USAID team: Parks, Van Orsdol

Mr. Anderson expressed his concern about sustainability of environmental policy aid and the EAP/PPC process. Explained that the Min of Env. would prefer to design the EAP itself as inter-ministerial committee would not assure approval by Council of Ministers and that inter-ministerial participation would be most useful after the initial Council of Ministers review. He stressed that there was considerable lack of understanding of the EAP even within the Ministry and that initiating and putting together and EAP would take time. Leszek Banaszak, director of the Department of International Cooperation, will be the principal Ministry contact on the EAP/PPC. Glen Anderson will work closely on this.

**Comments.** Good meeting, but still lack of direction in EAP/PPC process.

**Action.** None

**Katowice Regional Implementation Unit (RIU), 14 February 1994**

Mrs. Wysocka, Director

Mr. Andrzej Szymborski, Department Manager

USAID team: Evans, Maal, Jakubowicz

**Major subjects discussed.** The USAID team presented the goals and objectives of the mission. The RIU is responsible for coordinating and implementing funded foreign assistance programs in Katowice wojewodstwo. Currently, it is primarily concerned with two groups of projects: 1) EU/PHARE master plans; and 2) a new set of projects under development with Katowice Environment Director Beblo.

The PHARE program is a 15.5m ECU effort consisting of analyses, studies, technical assistance, training, and development of master plans in the areas of water, air, wastes, and soil. For each topic, the program will produce a wojewodstwo-level master plan to identify activities and management issues, and then implement pilot projects and subsequent investments on the gmina level. The RIU expects that the PHARE program will completely cover all costs for preparation of the air component (and the others, too); therefore, no additional assistance is needed in this regard.

Several projects recommended from Project Silesia were mentioned, including a closed coke oven plant, underground gasoline storage tank leakage, and wastewater sludge management. Mrs. Wysocka expressed the hope that Project Silesia in its next phase would complement the PHARE program.

**Conclusions.** Despite the cool reception by the RIU, it may be useful to continue efforts to coordinate with the PHARE program in Katowice, particularly regarding the air and food contamination (soil) components. Mrs. Wysocka did not spend much time discussing follow-up to Project Silesia, indicating that Mr. Swaton (Director of the Katowice Environment Fund) would be the best contact. I got the sense that the RIU did not consider the team to be a serious partner—that we were just blowing through, looking for quick and easy answers to complex problems. Mrs. Wysocka noted that technical assistance programs are most effective if they involve a long process of interaction, rather than trying to decide quickly on investment projects. The RIU seemed rather passive in its role as coordinator—rather than just hoping for better integration of its major programs, it should consider how it can push its partners to work toward the desired ends.

**Next steps.** Maintain contact with the RIU as a primary coordination point for the wojewodstwo for any EAP activities in Katowice.

**Main Institute of Mining, Katowice, 14 February 1994**

Prof. Zygfryd Nowak

USAID team: Evans, Maal

**Major subject discussed.** Polish-Norwegian bilateral "Cleaner Production Program." Prof. Nowak described this highly interactive program, begun in 1991, that has trained almost 500 participants and identified or begun to implement pollution prevention practices in some 319 industrial facilities in Poland. The major obstacle to implementation of cleaner production measures is the lack of financing for demonstration projects—at approximately \$200K each, they are too small for IFI financing. The program participants have not explored national-level sectoral financing, and have not to date routinely attempted to use the National Fund.

Prof. Nowak noted that there is still inadequate linkages between economic and industrial policies in Poland, that since most facilities still receive an operating budget from the government, there is no incentive to implement cleaner production methods.

**Conclusions.** Prof. Nowak would be a useful point of contact for any subsequent industrial pollution prevention projects undertaken in Poland. He is also interested in and may be able to advise on setting up a revolving fund to finance industrial demonstration and investment projects.

**Next steps.** Prof. Nowak sent later by fax to the team one-page descriptions of two facilities that would be candidates for pollution prevention demonstration projects. USAID (EP3) should review them and contact Nowak if there is interest in following up. He also requested that MOSZNL send him the criteria for proposals.

**Katovice Voivodship Fund for Environmental Protection and Water Management  
15 February 1994**

Jerzy Swaton, President  
Andrzej Szymborski,  
Regional Implementation Unit

USAID team: Evans, Jakubowicz, Parks, Maal, Van Orsdol

The team learned about the overall criteria the fund uses for financing projects, and how the Fund cooperates with the Voivodship Department of Ecology. The team also identified the most important environmental issues in Katowice: air pollution (low emissions), shut-down coke plants, solid waste management, and water pollution. Regional projects (which extend beyond Voivodship boundaries) are partially funded by the National Fund, while the Fund tends to finance solely small projects within the voivodship. The Fund and the team decided that three main areas existed that could benefit from technical assistance. These are: 1) institutional restructuring and assistance to improve project

selection, 2) carrying out feasibility studies for potential projects, 3) finding improved mechanisms for locating co-financing opportunities at the national and international level.

**Foundation for Energy Efficiency (FEWE), Katowice, 15 February 1994**

Dr. Slawomir Pasierb, President  
Mr. Michal Pyla, Research Specialist

USAID team: Evans

**Major subjects discussed.** FEWE is a non-governmental organization (originally sponsored by the USG and private organizations) that conducts energy policy studies and projects. It is currently working on low-level emissions reduction plans for schools and hospitals, and operates a mobile air monitoring lab (provided by the Dutch) to identify energy conservation opportunities for various structures. FEWE is also very interested in development of legal tools that would promote more efficient energy use—for example, there are currently no emissions standards in place for individual home heating units. In reference to the EU/PHARE-supported low level emissions master plan, FEWE wants to analyze demand side management issues.

**Conclusions.** Katowice Environment Director Beble views FEWE as a strong resource for policy development and project implementation in the field of energy conservation and reduction of air pollution. If USAID undertakes work on this topic in Poland, FEWE should be considered as a possible contributor/participant. It also has offices in Warsaw and Krakow.

**Next steps.** None at present.

**Krakow Mayor's Office, 16 February 1994**

Deputy Mayor Jan Friedberg  
Deputy Mayor Wladyslaw Brzeski  
Dr. Aleksander Noworol, Director, Department of Strategic Planning and Development

USAID team: Parks, Van Orsdol, Maal, Evans, Jakubowicz

**Major subjects discussed.** Comprehensive review of economic, management and administrative problems connected with environmental protection in the city of Krakow; chief environmental priorities for possible support by USAID or other U.S. Government agencies.

The deputy mayors and staff were clearly well prepared for the meeting and devoted several hours to the session. After opening with grateful words for U.S. environmental assistance already provided, Friedberg expressed the need for assistance to develop better management experience. Key points raised included:

- Problems with non-availability of long-term financing.
- Quandary regarding financing: City Council's unwillingness to take loans; unstable revenue streams; uncertainties of financing due to political shifts both at the national and local levels; difficulty in raising taxes in an election year (local elections this spring/summer/fall).
- Technical assistance to help address municipal services planning in the context of political and fiscal uncertainty caused by inflation, varying revenues, lack of annual budgets, short-term nature of available loans would be very welcome.
- City has pretty good environmental master plan, now being updated to include new ownership structures.
- Ownership or control of district heating plants, which are currently owned by the national government while the city owns the distribution network.
- Identified 7 priority activities within 3 program areas: transportation (lead abatement); reduction of emissions from heating systems; and improvement of drinking water quality. Krakow is now working with the World Bank on a possible municipal transportation sector project.

**Conclusions.** Excellent partners for project development and implementation, as well as leading national dialogue in policy reform. They have an acute sense of where they are and what will be most useful to help them to the next stage.

**Next steps.** USAID contact World Bank/Slobodan Mitlicz in Washington regarding project on municipal transportation; see if EPA is interested in participating (as I recall, they are). Evans contact EPA to obtain information on Mobil 5 Model to help design urban transportation system; arrange transmission of materials (or model) to Mayor's office.

**U.S. Consulate Krakow, 16 February 1994**

Ms. Diane Markowitz, Counsel General

USAID team: Parks, Evans

**Major subjects discussed.** Parks outlined the team's objectives and provided an overview of the Lucerne agreement and EAP follow-up. Ms. Markowitz provided insights on the political forces at play in Krakow, and offered to assist in future interactions in support of EAP in the region.

**Conclusions.** Useful to touch base, gather support for future efforts. With their proximity to events and players, the Consulate can be a very useful resource for visiting teams.

**Follow-up.** Send Ms. Markowitz a copy of the team's final report.

**Krakow Voivodship Environment Department, 17 February 1994**

Mr. Jerzy Wertz, Director

Mr. Leszek Kossacki, Senior Official

Ms. Marta Szostek, Foreign Relations Division

Mr. Konrad Turzanski, Inspector, Voivodship Environmental Inspectorate

USAID team: Parks, Van Orsdol, Maal, Evans, Jakubowicz

**Major subjects discussed.** Identification of potential topics for candidate projects for USAID-assisted pre-investment preparation; procedural and managerial constraints on decision making to move environmental projects forward.

Parks introduced the team and its objectives. Director Wertz responded by noting the difficulty in tracing improvements in public health to specific investments, but agreed that air pollution presents the greatest health threat. In addition to addressing stationary source low level emissions, assistance is needed to help identify financing and facilitate decision making to resolve mobile source air pollution problems. (Both the Mayor's office and the Krakow Voivodship Environment Department identified mobile source air quality improvements as the most important problem that could usefully be addressed with USG assistance.) Also, the Dobczyce reservoir, the source of Krakow's drinking water, needs urgent attention to maintain safe quality levels. The overall greatest need identified was help in identifying and structuring financing for projects, and in breaking deadlocks in the decision-making process.

Several other potential projects that are high priority for the voivodship were mentioned. Those that are of potential interest to USAID as PPC project, based on likely reduction of threats to health, include:

- municipal solid waste disposal
- hazardous waste disposal for chromium-contaminated material from the Alwernia Chemical Factory (team members later visited this facility). No hazardous waste management capacity exists at all in the region.
- low-level stationary source air emissions reduction project not included in the DoE program:
  - replacement of coal-fired boilers with gas, electric or fuel oil
  - energy conservation/efficiency for dwellings (FEWE work)
  - utilization of waste products from FGD process installed at Skawina power plant

In a frank discussion of the administrative, political and financing problems now confronting Krakow voivodship, Director Wertz lamented the decrease in influence his department and other environmental professionals have over the selection of projects to be financed by the voivodship environment fund, which he characterized as functioning essentially as a bank only concerned with expanding and maintaining its capital. Until a new law last year passed creating the voivodship environment funds, the voivodship environment

departments acted as clients of the National Fund. The voivodship environment department (and inspectorate) are not responsible for project implementation, but rather coordinate programs, including international cooperation.

Director Wertz also touched on the problems presented by frequent changes in Ministers of Environment, with six over the past four years, and stated that at this point he could not say who is responsible for environmental policy in the voivodship. Policy formulation and program development is currently fragmented across numerous bodies, including the gminas, voivodship and PIOS, but their recommended actions are not supported by the voivodship environment fund because it operates on the basis of its own criteria.

Director Wertz echoed comments heard consistently in Warsaw, Krakow, and Katowice that little information had been received regarding the Lucerne agreement, and that preparation for the conference had been haphazard.

**Conclusions.** Director Wertz and his department will be instrumental in any USAID efforts in support of the EAP in Krakow. The department would be a willing partner and participant in capacity-building exercises designed to improve the decision making process and help to identify and package funding for projects.

**Follow-up.** Wertz to prepare candidate projects for consideration for support by USAID. USAID should verify that Wertz is invited by MOSZNL to submit projects, and that he receives the criteria information prepared later during the team's visit.

#### **Polish Ecology Club, Krakow, 17 February 1994**

Dr. Maria Guminska, Vice President

USAID team: Evans, Jakubowicz

**Major subjects discussed.** Evans briefed Dr. Guminska on the EAP and the USAID team's mission. Dr. Guminska described current activities of the Polish Ecology Club (PKE) and identified topics related to the EAP for which she and/or the PKE could provide data or other contributions. One particular concern is mobile source pollution, especially lead contamination. Dr. Guminska has data from a study of lead in newborn infants that could be compiled and made available to national-level policy makers who are addressing environment and transportation policy reform. Another area of growing interest to the PKE is monitoring the environmental performance of IFIs in Poland.

**Conclusions.** The PKE membership includes many leading environmental and medical professionals, and should be considered a resource by MOSZNL and USAID, particularly for inputs into the policy dialogue connected with development of a NEAP in Poland. The PKE can also help to introduce EAP concepts and programs to local communities through its outreach and education programs.

**Follow-up.** Encourage MOSZNL to tap leading environmental professionals outside of the government in the NEAP development process.

**EcoBank in Krakow, 18 February 1994**

Maria Antonczyk

USAID team: Parks, Van Orsdol, Jakubowicz, Evans, Maal

The team discussed the role of the local EcoBank in funding projects, and its relationship to the National Fund. The team learned that the local EcoBank only funds small projects, and submits large projects to the National Fund. Additionally, the EcoBank relies on the technical expertise of the National Fund before approving project proposals. The EcoBank also discussed how the interest rate on loans varies from as low as 7 percent for not-for-profit organizations to as high as 40 percent for commercial interests.

**LEM in Krakow, 18 February 1994**

Staff (Bill Sommers out of town)

USAID team: Parks

Discussed several issues about project development and implementation at the small municipal level. The upcoming local elections have caused delays in municipal decisions. Also the shifting of responsibilities, such as school finance, from the central to gmina level has put the gminas under heavy budgetary pressure. Visited one of the gminas where LEM is active and discussed public information issues.

**Comments.** Good meeting, good source of information about developing local projects. Very nice office.

**Action.** Think about public information for PPC projects.

**World Bank Task Manager for Poland, 20 February 1994**

USAID team: Parks, Evans, Maal, Van Orsdol

The team learned of the difficulties experienced by the World Bank in implementing projects in Poland. Of the \$12 million allocated for environmental issues in Poland, only \$500,000 had been spent to date. This difficulty was due to limitations on borrowing by the Government of Poland and the difficulty in getting projects underway. The Bank's technical assistance program focuses on four main areas:

- Assistance to the Ministry of Environmental Protection, installation of a computer network, training of environmental auditors, and carrying out environmental audits of selected factories.

- Air quality programs, including mobile source reduction in Krakow and Katowice and assessment of point source emissions reduction programs.
- Water quality programs, including monitoring of water resources, establishing regional water councils, and developing a water basin management system.

The Bank also discussed the development of geothermal projects in Cieszyn and Zakopane and how such projects have the potential for promoting large, environmentally-benign, energy production projects. The bank also discussed the environmental issues facing the coal industry, and how inexpensive and subsidized coal from other countries is adversely affecting the Polish coal industry.

**Ministry of Environmental Protection and other agencies, 20 February 1994**

Mr. Banaszak, Director, Ministry of Environmental Protection  
 Professor Zylicz of the Ministry of Environmental Protection  
 Mr. Schlartar, Director, Ministry of Planning  
 Mrs. Joanna Szedzinska, Counsellor, Ministry of Finance  
 Representative of the Ministry of Agriculture  
 Representative of the Ministry of Industry  
 Representative of the Council of Ministers  
 Representative of the Ministry of Trade  
 Representative of the Ecofund

USAID team: Parks, Van Orsdol, Maal, Evans, Jakubowicz, AP, Margueron

Paul Parks introduced his team and explained the purpose and objectives of our visit to Poland. Mr. Banaszak chaired the meeting all day long. After briefly greeting us, he opened with a discussion of the problems affecting the PPC process. He expressed concern about the development of a large organizational structure. He added that Poland was considering proposing significant changes in the PPC's organizational structure and management to increase the efficiency of decision-making and disbursement.

The team noted that the PPC had no formal budget or resources and only one full-time staff to coordinate, structure, and facilitate the transmission of projects to donors and IFIs. The team also explained that the PPC suffered from serious staff constraints and could not process any more credit at this stage.

Shifting to projects, a great deal of time was spent discussing the optimal shape, size, maturities, and nature of projects eligible for our assistance. We offered and prepared a project methodology and criteria list for projects.

It was later decided that the Ministry would submit an updated list of 15 to 20 projects on the 24 and 25 of March when PJP returns to Warsaw. From this list four projects will be selected, and it is anticipated that the first team of U.S. consultants should be in place in Warsaw by mid May to formally assess the projects.

The Director of Planning believed that the Lucerne process was not being implemented correctly and that full disclosure of meetings would facilitate a better understanding of the PPC process and progress. The Ministry of Trade representative emphasized the need for the PPC to comply with Polish environmental priorities. The trade representative mentioned that the donors' requirement for project details raised concerns about the confidentiality of proprietary information and commercial secrets.

The Ministry of Industry representative stated that the industrial and environmental priorities do not match and environment was not on top of those priorities. She announced that a national steering committee was in the process of being set up.

The Ministry of Agriculture representative stressed that although they had not participated in the Lucerne process, her ministry was interested in playing an active role in the future. Pesticides and nitrates are a major issue in Poland. Eligible agricultural PPC projects are in the process of being analyzed at various research national institutes.

EcoFund does not set up priorities but follows the environmental priorities of Poland. EcoFund's approach is to evaluate projects on a case-by-case basis. EcoFund has little money to provide grants: \$8 million was available last year, and \$10mm is available this year.

The Ministry of Finance representative stated that there is very little money for environment issues. The meeting concluded with an emphasis on the need for domestic funding and for the creation of financial institutions that could facilitate long-term funding.

#### **Meeting with L. Banaszak, G. Anderson, J. Baginski, 22 February 1994**

USAID team: Parks, Maal

Follow-up meeting on the Monday plenary meetings on the EAP. Have devised schedule on next steps:

15 March 94—PPC projects due at Ministry of Env.

24/25 March 94—USAID will review and select PPC projects for technical assistance.

April 94—draft TOR for PPC projects and send to DC.

Early May 94—field mission to develop first project(s).

Initial goal is to provide a report to Banaszak for Task Force meeting (17-18 May)

**Comment.** Good progress.

**Action.** Coordinate with EP3 to make sure this can go on schedule. PJP goes to Warsaw on 24/25 March.

**Ministry of Industry and Trade, 22 February 1994**

Ms. Zoledziowska, Advisor to the Minister

USAID team: Maal, Jakubowicz, Van Orsdol

The team discussed the forms of cooperation between the Ministry of Industry and the Ministry of Environmental Protection and the basis of the projects proposed by the Industry Ministry for the Lucerne meeting. The team discussed how the Ministry of Industry communicates with private and public industries and put forward three potential projects for technical assistance. These projects were: car battery recycling at Huta Cynku (see description in Section III), Legnickie Zaglebie Miedziane solid waste disposal of copper-contaminated sludge, and the development of an environmental management program for an industrial facility which enriches zinc and lead.

The team also discussed the overall criteria developed with the Ministry of Environmental Protection and how Ministry of Industry projects would fit into this criteria.

**Follow-up actions.** Visit the Battery Recycling Facility at Huta Cynku.

**ProEko Consulting Co., 22 February 1994**

Bronislaw Kaminski, President

USAID team: Maal, Jakubowicz

The team discussed the EP3 projects and potential activities in Poland, the application of pollution prevention concepts in Poland, and exchanged ideas on the use of ProEko expertise in the implementation of EP3 and technical assistance programs.

**Capital Development Initiative (CDI), 24 February 1994**

W. Lewinski, Director

USAID team: Parks, Van Orsdol, Jakubowicz

Discussed who to contact concerning PPC. Gave several names and organizations.

**Comment.** Good meeting. Valuable source on information and contacts.

**Action.** Arrange meeting with the people that were suggested. Stay in contact with Lewinski.

#### **National Environmental Fund, 24 February 1994**

Mr. Chlopecki, National Environmental Fund Vice President  
Mr. Bogasky, Environmental Engineer

USAID team: Parks, Evans, Jakubowicz, Margueron

Mr. Chlopecki said that the implementation of projects in Poland did not require foreign technical assistance as they have all the engineers they need. More financial training is required at all levels of the economy. He mentioned the need for a financial training center for Eastern Europe.

The NEF is very strict in the enforcement of the National Environmental Policy. Approximately 40 percent of all expenditures related to water, waste, municipal solid waste, and industrial wastes. Also NEF is one of the major long-term loan providers to the economy. As a result, NEF has an impact in the economy that goes far beyond environmental issues.

NEF is anxious to participate in creating new market instruments and/or new institutions to support environmental projects. Mr. Chlopecki mentioned, as an example, the possible creation of an environmental insurance company. Mr. Chlopecki was informed that a list of projects was being prepared by NEF and would be handed over to Paul Parks on his return to Poland in the later part of March.

At the end of the meeting we were asked to look at a district heating facility in need of restructuring. We were asked to contact:

Mr. Tadeus Krysiak  
Vice President  
U1 Maja 16  
96-500 Sochaczew  
Phone: 227-19  
Fax: 226-02

Poland's 1994 expenditure budget is estimated for 1994 at \$31.5 billions, or 34 percent of the projected GDP. With budgets of local governments and parabudgetary funds added, the government sector's budgetary spending totals \$46.14 billions, or 49.8 percent of GDP. This means a massive scale of GDP redistribution, far too high for a country like

Poland. Poland, we must remember, has a GDP per capita three times lower than Greece or Portugal.

It is therefore necessary for the Government to avoid expanding the scale of redistribution through the budget.

**Ministry of Finance, 23 February 1994**

Mrs. Joanna Szwedzinska, Counsellor  
Mr. Janusz Wojcieh Wesolowski, Deputy Director, Foreign Department

USAID team: Parks, Jakubowicz, AP, Margueron

PJP explained our interest in assisting Poland in developing a domestic funding capability which could support environmental projects.

We presented the concept and mechanisms of guarantee funds.

The deputy director expressed an interest in the concept and asked us to send him an outline of the SERIF project we are planning to set up in Slovakia.

**World Bank, 23 February 1994**

Mr. Christian Duvigneau, Principal Operation Officer

USAID team: Margueron

Mr. Duvigneau seems interested in the technical assistance available through USAID in Poland. He is working on coal conversion or coal cleaning projects that require a lot of environmental assessments.

I was surprised that the most likely area of close cooperation will be in the development of domestic funding market mechanisms such as guarantee funds and revolving funds. Any new market mechanisms such as "Deferred Revenue Pools" are of great interest to the World Bank. Mr. Duvigneau was so intrigued by the concept that he asked me to come back the following day to present the idea to his economist and leave some diagrams as to its mechanism. Mr. Duvigneau felt that in spite of Poland's budget deficit, the potential impact of such mechanisms on interest rates and inflation would push the Polish government to have a close look at this concept. It is his intention to back up the concept with the World Bank Resources.

Mr. Duvigneau seems to be optimistic as to the general economic trend of the country. He was particularly pleased with the slow down in inflation. In his opinion, the major obstacle to economic assistance is the lack of willingness on the part of every Polish bank manager to take advantage of intermediate loans made available to Polish financial institutions. The fear on the part of bankers of being eventually accountable for making a

bad loan seriously hampers the development of commercial banking.

In the past under the previous system, the government was allocating grants in the form of "budgets" for which nobody was accountable once they were disbursed. "Lending" is a new concept in Poland that makes local bankers nervous. As a result bankers lend with a 300 percent security/debt ratio. This is the major reason for the non utilization of IFI's loans.

**Ministry of Ownership Change (Privatization), Warsaw, 23 February 1994**

Dr. Piotr Syryczynski and Mr. Taduesz Kosielak, Department of Capital Privatization/Inter-ministerial Committee for Environment and Privatization

USAID team: Evans

**Major subjects discussed.** Syryczynski and Kosielak presented an overview of the current status of capital privatization in Poland. Documents received (in English) include a list of State Treasury Corporations Privatized...by 31 December 1993, and the Ministry of Privatization's Transfer List of companies that are in the privatization process.

The Ministry of Privatization functions essentially as an investment bank for the State Treasury; the Inter-Ministerial Committee on Environment and Privatization serves as internal environmental advisors to the Ministry of Privatization. Through an EC/PHARE grant, the Ministry contracts for outside environmental consultants when it knows or suspects that a company or group of companies will have significant environmental problems. Polish companies are no longer grouped sectorally for privatization, but instead enter the process individually. The Department of Capital Privatization handles medium (400+ employees) and large (1000+ employees) companies. A company has been privatized when 51 percent of its shares are held outside of the government; the Ministry likes to see about 80 percent privately held. Up to 20 percent of the shares may be bought by the company's workers at a preferential price of 50 percent of the market value. To date, approximately 100 medium and large industrial facilities have been privatized. (At any given time, approximately 60 companies are in the pipeline.

Privatization in Poland involves the following process:

- Commercialization, whereby workers and directors agree to convert the firm from state-owned to private status. The founding body—one of 60 possible organizations such as ministries or voivodships, approves the commercialization into a joint stock or limited liability company.
- Prior to sale of stock to third parties, financial and legal analyses and valuation are done.
- Capital privatization can then be achieved via one of three routes: 1) tender via an initial public offering; 2) public auction (has not yet been used); and 3) invitations

to negotiate (the primary form).

- An information memorandum and public notice of invitation to tender are published in a Polish newspaper and the *Financial Times*.
- The Ministry of Environmental Protection evaluates the offers and selects one or two for negotiation of terms, which include the purchase price, investment commitment, social package (number of workers retained, compensation, benefits), and environmental considerations. The Vice Minister or Minister approves the transaction.
- The whole process can take from 3-4 months to three years; 3-6 months is considered a quick turnaround. The completed privatization is also announced in the *Financial Times*.

Information was also provided on mass privatizations and the categories of facilities that are withheld by the government from privatization.

**Conclusions.** Two possible targets for technical assistance were identified during the meeting: 1) Matchmaking between investors (foreign or Polish) and enterprises that are to be privatized (existing projects such as CDI could assist?); and 2) possible environmental technical assistance to industrial facilities by preparing detailed information on problems, costs to remedy, and results, to make the facilities more attractive to investors (via EP3, WEC?).

**Follow-up.** Have MOSZNL forward criteria, invitation to submit project proposals to the Ministry of Privatization.

**MOSZNL Program Unit (PIU), Warsaw, 24 February 1994**

Dr. Stanislaw Wajda, Advisor, CEC PHARE Programme

USAID team: Evans

**Major subjects discussed.** Wajda presented information on Phase II (1991-1994) of the EU/PHARE Institutional Strengthening of Environmental Management Program component, which should be of interest to USG agencies that support similar projects. The institutional strengthening component consist of the following ongoing and planned projects in three main project groupings:

- Assessment of existing and proposed systems of environmental management
  - Publication in Polish of EC environmental legislation
  - Enhancement of the institutional structure of environmental protection
- Economic and legal instruments in environmental protection policy
  - Inventory and assessment of the efficiency of economic instruments applied in

**Poland and OECD countries**

- Designing a programme of tradeable emission permit system and implementation of a pilot project
  - Designing a program of compliance schedules for polluters
  - Harmonizing Polish environmental laws with EC environmental legislation
- Definition of priorities and costs for implementation of medium-term priorities
    - Development of cost methodologies and evaluation of cost-effective strategies for achieving harmonization with EC environmental standards
    - Designing a nation-wide policy towards industrial contaminated sites

Wajda expects no direct linkages between the PHARE program and Lucerne follow-up activities.

**Conclusions.** There is a lot of room for better coordination between USG and the PHARE program, particularly as they relate to NEAP development and capacity-building.

**Follow-up.** None at present.

**MOSZNL Program Implementation Unit (PIU), Warsaw, 24 February 1994**

Dr. Jerzy Kwiatkowski, Director

USAID team: Evans

**Major subjects discussed.** Fate of the \$4m remaining in the World Bank environment management project loan; GEF grant for reducing CO2 emissions.

Projects likely to be funded from the \$4m remaining in the World Bank loan will focus on implementation of the new law on water management, which authorizes a regional river basin approach. The ministries that currently have responsibilities for water quality (MOSZNL for surface and groundwater quality, Ministry of Physical Planning and Construction for municipal drinking water, Ministry of Agricultural for rural water supply) will retain those functions under the new law, but the new regional water management authorities will acquire additional and perhaps overlapping responsibilities.

The Global Environment Facility (GEF) has awarded a \$25m grant to Poland for reduction of CO2 emissions from small boilers (up to 10mw) by conversion from coal to gas and installation of condensing boilers for heat or co-generation equipment for heat and electricity. The Norwegian government has added \$1m to the project, bringing the total to

\$26m. The project will be managed by the EcoBank; any additional support must essentially buy into the existing project framework.

**Conclusions.** The PIU was not very interested in thinking about funding Lucerne-type projects from the remaining \$4m in the World Bank loan, largely because they have identified a clear need for support relating to the new water law. There may be good linkages for capacity-building activities insofar as the new projects address drinking water.

The PIU has an impressive, color-coded wall map of Poland showing which foreign partners are sponsoring which types of projects. The information is also displayed in pie charts. It would have been helpful for the mission to review the map early in the visit to get a sense of who's doing what where!

**Follow-up.** None at present.

**Institute for Sustainable Development, Warsaw, 1 March 94**

Andrzej Kassenberg, President  
Krzysztof Kamieniecki, Vice-President

USAID team: Evans

**Major subjects discussed.** Institute for Sustainable Development (ISD) ideas regarding Lucerne and NEAP development in Poland; interest in establishing an EIA Clearinghouse for Poland; reaction to possible ISD involvement in a project with Alwernia Chemical Plant.

ISD views environmental health as the most important, least conceptually developed issue relevant to development of a NEAP in Poland, and is very willing to contribute to (or perhaps organize) a senior-level policy dialogue on the subject. Other recommended participants could include the Physicians for Social Responsibility, the Foundation for Ecology and Health, the Polish Ecology Club, the Institute for Occupational Health and Safety, and the State Sanitary-Epidemiological Service.

Of possible interest as an EAP capacity-building project, the ISD is working to organize an environmental impact assessment (EIA) Clearinghouse to provide information on comparative EIA practice and serve as a resource for Poland and, potentially, other countries of the CEE region. Anticipated users of the service include municipalities and gminas (local self-governments), voivodship administrations, other government agencies, industry and the interested public. Kassenberg pointed out that if the current version of the new law on land use planning passes, local self-governments will be responsible for EIA preparation. ISD is also would like to study comparative international experience in community-right-to-know legislation and practice.

Further to discussions at the Alwernia Chemical Plant near Krakow the previous week, Evans probed ISD for their reaction to a possible collaborative project to assess the

public and environmental health impact of the treated solid waste containing chromium-3. Alwernia plans to sell the treated waste as industrial construction material, but is not able to find enough demand to make the process economic. If the material is appropriate for other types of construction (e.g., roads, housing, office buildings), the market would obviously be greatly expanded. Kamieniecki thought that NGOs would react negatively to the prospect of collaboration with Alwernia, partially because of uncertainties regarding the safety of the material, but also because of reluctance to be associated with such a facility on one project when other, unrelated aspects of the company's environmental performance could be quite poor.

**Conclusions.** ISD is well-positioned to contribute to the policy dialogue and inclusive process needed to develop a NEAP in Poland, and could also be involved in capacity-building activities. If USAID decided to support a project with Alwernia to resolve the problem of use of the treated waste, it could be worthwhile to revisit the question of NGO participation. ISD's initial negative reaction was predictable, but may well evolve with further discussion and consideration.

**Follow-up.** USG/USAID should recommend to MOSZNL that ISD and other NGOs be included in the NEAP policy development process. Alwernia follow-up contingent on whether it is selected as a project.

**Foundation for Ecology and Health, Warsaw, 2 March 1994**

Dr. Marek Sieminski, President  
Julia Jowers, Project Manager (Peace Corps Volunteer)

USAID team: Evans

**Major subjects discussed.** Review of Foundation for Ecology and Health (FEH) activities, their interest in bringing environmental health issues before policy-makers.

Through its research projects and studies, FEH attempts to quantify environmental contamination in Poland, citing a continuing lack of real data on the presence, quantities and effects of pollutants. They concentrate at the community level, and conduct public education and awareness through production of a bi-monthly bulletin, and writing articles for local and national publications in Poland that are read by local government officials. In the past year, FEH has begun to direct their publications to national-level policy-makers (Parliament environment and health committees, ministries). They operate a Toxic Information, Monitoring and Response Service that houses a collection of publications and project data. One ongoing project is a lead screening study of 1-3 year-old children in Warsaw, for which the US Centers for Disease Control has provided equipment and quality control.

**Conclusions.** Although small (5 part-time staff), FEH has a good body of information on environmental health issues in Poland, serving as the only NGO dedicated to the issue. They offer some good practical experience in designing and delivering

community-based programs, and also have a good handle on how to go about influencing the national-level policy debates.

**Follow-up.** Consider FEH a resource for policy formulation on environment and health issues for the NEAP. They and the Institute for Sustainable Development have a productive working relationship.

**Central Office of Planning, Warsaw, 3 March 1994 (meeting site at MOSZNL)**

Jacek Szlachta, Director for Regional Policies

USAID team: Evans

**Major subjects discussed.** Role of Central Office of Planning in the Polish government, especially insofar as regards environmental programs. Provide a paper (in English) on "The Relationship between Regional Development and Environmental Enhancement," plus data on emissions and effluent levels over 1989-1992 that demonstrate a decline in pollution that is roughly four times greater than the decline in GNP for the same period, and that is maintained even during 1992, when GNP growth rose by 1.5 percent.

The Central Office of Planning serves as a "Ministry of Economic Strategy," responsible for analysis and recommendations of budgets prepared by ministries, together with research to forecast economic trends. The Regional Office provides advice to voivodships on a wide array of topics, as needed (e.g., economic development, environment). Szlachta works closely with the EU Directorate for Regional Policy (DGXVI) to build the infrastructure that will enable Poland to take full advantage of the EU's Regional Fund when Poland has become an EU member country. He is also working with the EU on co-financing investments for transboundary projects to address environmental problems.

**Conclusions.** The Central Office of Planning could be an important resource and partner in shaping policy regarding financing of environmental investments. Szlachta respects and likes Nowicki (EcoFund), and is prepared to work with him on a task force to explore long-term funding options for environmental projects.

**Follow-up.** None at present.

**Parliamentary Bureau for Research and Expertise, Warsaw, 3 March 1994**

Dr. Janusz Jeziorski, Coordinator

USAID team: Evans, Jakubowicz

**Major subjects discussed.** Role of the Bureau in analyzing new environmental legislation, environmental impact of other draft legislation, synthesis of comments and recommendations on draft legislation from various bodies (ministries, Parliamentary committees, national experts).

The Parliamentary Bureau for Research and Expertise is similar to the US Congressional Research Service, but much smaller (80 staff vice 600 at CRS). The Bureau addresses about 1500 topics a year, mainly analysis and evaluation of new laws and international agreements. An important area of activity currently is harmonization of Polish law with EU law. Jeziorski pointed out that work is being done by several different organizations on harmonization of environmental standards, and that these efforts are not well coordinated. Other environmental topics expected to be addressed soon by the Bureau include:

- new act on protection of agricultural and forest soils
- environmental protection act
- hunting law
- new act on solid waste management
- additions to existing laws on geological resource use
- forestry law

**Conclusions.** Jeziorski is a good source of information on the status of various legislative initiatives, and an astute observer of the political trends and sociological developments in Poland. USG agencies may find it useful to coordinate policy and legislative projects with the Bureau, but it normally only gets involved in an issue after documents have been sent through the Council of Ministers to Parliament.

**Follow-up.** None at present.

**Other Meetings:**

14 February	Wojewodstwo Environmental Department, Beblo
15 February	Institute for Chemical Processing of Coal (Zabrze), Dreszer
16 February	Krakov Development Office (re low-level emissions)
18 February	Krakov Environment Fund, Wapiennik
22 February	EcoFund, Prof Dr Maciej Nowicki
23 February	International Finance Corporation, Mr. Damian Damianos, Resident Representative