



## **EIE Project ROSH**

Development and marketing of integrated concepts for energy efficient and sustainable retrofitting of social housing

[www.rosh-project.eu](http://www.rosh-project.eu)

# **Survey on regulatory frameworks and economic conditions**

WP 3: Advanced Tailored Financial Schemes

Task 3.1: Analysis of existing financial mechanisms and economic conditions

Deliverable: D13b

Country: Poland

Organisation: BAPE

Editor: Katarzyna Grecka

Gdańsk, 4.10.2006



The project ROSH is supported by the European Commission



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## **Imprint**

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# 1 Introduction

## 1.1 The ROSH mission

ROSH – Retrofitting of Social Housing – is a European co-operation project for the development and marketing of integrated concepts for energy efficient and sustainable retrofitting of social housing in the partner regions. For the purpose of the project “social housing” comprises multi-family houses or apartment buildings for low-income households. Running from January 2006 to June 2008, ROSH supports this undertaking with information, training and communication measures as well as helpful tools and materials. Its focus is on social housing providers and on tenants. Within the scope of ROSH, guidelines for the sustainable retrofitting of less privileged houses will be developed as well as financing schemes. ROSH methods will be evaluated by means of demonstration projects.

## 1.2 Advanced tailored financial schemes

The major obstacle for refurbishment in social housing is well known: lack of financial means. This situation is significant for all EU Member States. The ROSH project team analysed the specific, current situation in the participating EU regions (in Austria, Germany, Ireland, Italy and Poland) in order to research, compile and assess innovative financial schemes. The starting activities have confirmed the problematic status quo but have shown some interesting approaches (e.g. contracting instruments) to improve the situation.

The main results will be presented in the guidebook “Sustainable Retrofitting of Social Housing: Financial Schemes”. The publication will describe regulatory frameworks concerning energy efficiency, subsidy schemes and advanced tailored financial schemes. In addition it will contain planning tools for and good practice examples of successful financing projects. The guidebook is intended for decision makers in housing companies and local authorities as well as energy agencies, consultants and planners and will be published in spring 2007.

This survey describes regulatory frameworks and economic conditions in the partner regions. It is based on the previous research involving experts and key actors and is the basic document for the further elaboration of new tailored financing schemes.



## 2 Overview on housing policy (1 page)

In Poland, the Ministry of Transport and Construction is responsible for the scope of construction, architecture, housing policy and management, spatial management and development support and the revitalization of cities as well as state aid in the repayment of housing credits.

**"Strategy for Long-term Development of Housing Sector for the period 2005-2025"** (draft document, Warsaw 2005). This document defines long-term objectives of housing sector development, the basic catalogue for establishing housing policies on the local and regional level. The strategic aim of these policies is to bring the level of satisfying housing needs of Polish citizens closer to the average level in European Union and to accomplish it by 2025 by means of reducing the deficiencies in living standards (co-habitation of many families in one flat, small floor area of flats, low maintenance standards and poor technical fittings inside flats). The strategy will be carried out in three phases. Two first phases are correlated with National Development Plan for the period 2007-2013. The strategy lists the following priorities as one of the most important ones:

- improvement of technical condition and standard of fittings in the flats achieved by means of:
  - making rents more realistic (so that they cover actual costs) and establishing a system of protection (special rent benefits for tenants with low income),
  - financial support for the building stock owners (eg. housing cooperatives) in refurbishment and modernization of buildings,
  - establishing institutional and legal framework enhancing the process of retrofitting,
  - creating favourable conditions for balanced housing environment,
  - implementing ESCO for thermal modernization activities,
  - implementation of the system of energy performance certificates,

There are no specific refurbishment plans stated in housing policy. The approach of the policy is rather market oriented e.g. owners of buildings and dwellings should take care of the stock. The state provides some support in form of subsidizing loans to low-income families.

At regional level housing policy is created by Strategies for Regional Development of Individual Regions. At local level there are Strategies of City Development, Multi-year Programmes of Housing Stock Management, etc.



### 3 Main institutions and their role (1 page)

**1) Ministry of Transport and Construction** is responsible for both housing policy and city development.

**2) Municipalities** – are responsible for public issues at a local level, including the assurance of collective needs of the community, such as communal housing, social care support and the supply of energy. Administrators of the municipal housing stock are obliged to take special care in its management in the respect of its use and conservation.

The municipalities are owners of so called communal housing stock and act as co-owner in home owner associations. In the communal housing stock municipalities are solely responsible for maintenance and refurbishment of buildings. As members of home owner associations the municipalities have obligation to pay the down payments for maintenance and refurbishment according to decision of assembly of home owners which is taken by majority of votes.

**3) housing cooperatives and home owners associations** – both housing cooperatives and home owners associations are most important owners of social housing stock.

The cooperatives are working based on Cooperative law, can not work with any profit and are free at establishing of cost structure.

The home owner associations are working based on Law of ownership of dwellings from 1994. The HOAs have no legal status. HOAs can allocate the costs of (energy efficiency) investments into the rents. Increase of the rents is allowed up to the level accepted by assembly of home owners.

**4) Central Revision Union** – represents 620 members managing 1,42 million dwellings. This union is member of CECODHAS.



## 4 Existing subsidies and campaigns (1-2 pages)

### 4.1 Subsidies

**Thermomodernization Law** - dated of 18<sup>th</sup> December 1998, amended by the law of 21<sup>st</sup> June 2001 makes it possible to obtain a 25% subsidy to the capital of the loan taken by the investor. The owners of the following buildings are eligible to receive the subsidies:

- single family houses
- multifamily residential buildings
- social infrastructure owned by communities: schools, kindergartens, hospitals, hostels
- common habitation facilities independent of the ownership status

Thermomodernisation premium (subsidy) of 25 % of the loan is given, if due to the investment the reduction of heat consumption reaches at least 10% in the case of the modernisation of heating system and in other cases if the reduction amounts to 25%. The granted loan has to be repaid in the form of energy saving costs. The maximum value of the loan cannot exceed 80% of the investment costs and the Simple Payback Time period cannot exceed 10 years.

The state plays an important role in refurbishment / energy efficiency activities via BGK bank, which governs the thermorenovation fund. The yearly expenditure from this fund has reached **25 million euro** and is not sufficient to cover all applications. The amount of money is allocated to this fund by state budget every year.

**Foundation EkoFundusz (EcoFund)** – State owned foundation was formed in 1992 from eco-conversion of Polish debt and it will operate till 2009. EcoFund provides grants of 250 euro/m<sup>2</sup> and finances up to 40% of investment costs of solar installations with the surface over 50m<sup>2</sup>.

It also provides grants for complex energy saving projects in heating systems which are carried out by:

- local government
- budgetary units
- housing societies
- district heating companies.

Winners of the contest are awarded with a grant equal to 30-50% of investment costs.

**Regional Funds for Environmental Protection** - subsidies to bank loans up to the amount of 0,5-0,7 bill of exchange bank rediscount rates.



**Communal and municipal funds for environmental protection** - depending on priorities adopted in a particular municipality - e.g. the municipality of Sopot offers subsidies to the costs of exchanging conventional heating systems (heat pumps, solar panels, ruling out coal fired heating systems). The subsidies can be granted to tenants and flat or house owners regardless of the management form.

**European Economic Area (EEA) Financial Mechanism and Norwegian Financial Mechanism** - are two of the available resources for funding municipal energy efficiency projects. Poland has been awarded, under both Mechanisms, the total of 533.51 million euro for the years 2004-2009. Generally, all public or private sector bodies and non-governmental organizations (NGOs) constituted as legal entities in Poland and operating in the public interest may apply for assistance.

EEA FM is intended for large projects (minimal amount of granted funds is 250 000 €, maximum is 2 million €). The grant cannot exceed 85% of the total qualified costs (only if a project is co-funded from the national or municipal budget). The main priorities for the EEA FM in the area of environmental protection are among of the others:

- limiting the displacement of pollution,
- saving energy sources,
- increasing the share of RES in Poland's energy balance.

### **Structural funds from 2007 to 2013**

The expenditures on housing are eligible to be covered from the structural funds under the following conditions:

- the expenditures are incurred within the activities of the integrated programme of municipal development or the priority axis for degraded areas or the areas in danger of physical degradation or social exclusion (local programmes of revitalisation)
- expenditures are limited to refurbishment of multifamily residential buildings and the adaptation of buildings for accommodation for families of low income or for people with special needs, under the condition that the buildings are owned by local authorities or non-profit entities.
- investments in the housing area eligible to be co-financed from EFRR include: the roof, the windows, the front, the lift, the staircase, the hall, the passage (underground, at the ground level and above the ground) linking particular parts of the residential buildings, the hall and any technical fittings of the building or activities increasing the energy efficiency of the building.

## **4.2 Campaigns**

The educational and promotional action focusing on the problem of energy saving was initiated in 2003 by the Ministry of Infrastructure. Under the action an information package was prepared (including posters and booklets) which was addressed to administrators of building, tenants and developers. The publication pre-



sented methods of technical upgrading of buildings which result in saving the energy consumption and the possible use of RES as well as the procedures of investment preparation and schemes of financing thermal modernisation. ,

The material also presents the information on the system for assessing energy efficiency of buildings which is currently being implemented.

The information is available on the internet at:

[www.domprzyjazny.pl](http://www.domprzyjazny.pl)

The printed version of the material free of charge can be also sent on request.

The campaign is financed by private economy sector via associations of producers and suppliers of construction materials on special agreement with the Ministry of Construction.



## 5 Innovative financing schemes (2 pages)

Different ESCO and third party financing (TPF) concepts have been introduced and tested in Poland over last years. Typical TPF projects aim at introduction of energy conservation measures in a building or a local system (housing settlement, hospital or military barracks) or at improvement of street lighting<sup>1</sup>.

Representative purchaser of the service is a municipality or property administrator. TPF and ESCO-type companies specialize in different areas and types of long-term contracts. As in a typical situation facilities of a potential client use excessive amount of fuels and energy, with shortage of own capital external provider of funds and professional service should be welcomed as offering solution for reducing energy costs. However ESCO concept is often seen only as profit-oriented business with no obvious advantages to the potential client.

The successful examples of ESCO projects as to housing are projects in schools, especially in the country-side, where the whole decision-making process is in hands of the local administration. The other example is street lighting, the other own task of communes where savings resulting from retrofit could finance ESCO project. Other successful ESCO projects have resulted in retrofitting of heating systems in military barracks.

Two large projects have been under development in Poland, supported by large international financial institutions – the World Bank and EBRD and aiming at launching of ESCO projects in much bigger scale, namely hundreds of buildings. Thanks to the World Bank involvement the Energy Service Company in Krakow has been established with active participation of DH Company. The objective of the WB project is to enhance the ESCO position on the market and to support ESCO in undertaking energy efficiency measures in different facilities including less-feasible measures. The objective of the Lodz project supported by EBRD is to select the best third-party partner willing to invest in energy conservation measures in Municipality owned facilities (schools, office buildings, sport centres and cultural buildings etc.). The selection of a long-term partner shall be based on the best offer for the energy performance contract.

Based on the last years experience some obvious barriers preventing wider spreading of ESCO concept in Poland could be identified.

- The public procurement procedures, evolving over time make difficult selection of the best potential ESCO partner and are not well suited for long-term ESCO contracts.

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<sup>1</sup> ESCO in Poland – experiences and barriers- A.Szaajner



- Regulations of the Energy Law result in keeping heat price at the lowest levels within approved tariffs and recovery of invested capital by ESCO is in many cases difficult.
- Some potential clients like housing cooperatives and associations of owners cannot offer reasonable guarantee for the long-term contract.
- Finally other available financial mechanisms supporting energy conservation measures like Thermomodernisation Law and environmental funds are not well bound with TPF-projects.



## 6 Needs for social housing retrofitting (2 pages)

The total number of dwellings in Poland amounted to 12,5 mln in 2002. Flats built until 1945 constitute almost  $\frac{1}{4}$  of the total number of dwellings.

The notion "social housing" has not been defined in Poland, but it is generally assumed that it includes the municipal housing stock, the housing stock owned by social housing associations (so called "TBS"), cooperative tenancy housing and employer-owned housing. Under this definition taken into consideration, the share of "social housing" amounted to 45,7 % of the total housing stock in Poland in 2002.

The dwellings of natural persons amount to 55% of the total housing stock, the dwellings in building owned by housing cooperatives – to 30% of the total housing stock of Poland. The remaining housing stock is mainly the municipal stock – at the level of 9,3% (1,9 mln dwellings). At the same time, the dwellings owned by the municipality form the oldest part of the housing stock, constitute the largest share of dwellings with the space under 30 m<sup>2</sup>, and they are characterised by the lowest percentage of the basic installations (water supply system, sewage system, lavatory) and a considerable level of backlog in refurbishment works.

It is estimated that ca. 10 mln of Poles lives in the substandard dwellings.

In 2002 331 thousand substandard dwellings were municipal dwellings while the remaining 178,7 thousand substandard flats were owned by housing cooperatives and others (excluding the flats belonging to natural persons).

The refurbishment and retrofitting of municipal buildings is hardly ever carried out in the complex, "holistic" manner in Poland. Every year some minor conservation works or larger refurbishment works are conducted, but only on some particular parts of a building. This is due to limited funds. Moreover, more complex thermal refurbishment works would require not only substantial funds for the investment, but it would be also necessary for municipalities to possess transitional, temporary dwellings which could provide accommodation for the residents of the dwellings which undergo complex thermal refurbishment.

The process of thermal modernization of the housing stock belonging to cooperatives runs much more smoothly, however the needs in this respect are enormous on the scale of the whole country. The housing cooperatives are the most frequent consumer of the thermal modernisation loan and they attributed to almost 50% of applications for the loan premium (subsidy), while the municipalities to merely 14%.

It is estimated that 7,5 mln dwellings of the 12,5 total requires thermomodernisation. During the period the Thermomodernisation Law has been in force, over 5000 buildings have been refurbished, including ca. 2200 of housing cooperatives' stock, 685 buildings owned by municipalities, 39 buildings owned by social housing associations ("TBS") and 1 300 buildings belonging to HOAs.



In order to increase the pace of thermal modernisation investments it is necessary to reduce the existing regulatory, organizational and economic barriers and to create broader possibilities of funds acquisition for the investments, including among others European Union funds that should be used to support the realisation of the municipal housing strategies.