

How does the European Regional Development Fund finance energy efficiency and renewable investments in housing sector in Bulgaria, Poland and Romania?



November 2009

Report prepared by: Energie-Cités



With the support of:



Agence de l'environnement
et de la Maîtrise de l'Énergie

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Introduction: The European Cohesion policy supports investments in the fields of energy efficiency and renewable energy

The budget of the European Union (EU) available for financing the common activities, European programs and operation of the EU institutions represents **1.24%** of the EU's gross national income. As a comparison, about **45%** of the EU's gross national income goes to national, regional and local public expenditure in the Member States.



A wide range of activities are funded from the EU budget and only **36 cents** out of every euro spent in the current budgetary period (2007-2013) will go to the European Cohesion policy activities. The European Cohesion Policy budget accounts in total for 347 billion EUR for 2007-2013.¹

Energy efficiency and renewable energy (EE/RES) priorities are integrated in all three objectives of the Cohesion policy:

- ✓ Convergence,
- ✓ Competitiveness and Employment,
- ✓ European territorial cooperation.

In March 2009, the European Commission announced that **105 billion EUR out of 347 billion EUR** of total Cohesion policy budget will be invested in the "green economy" through the EU Cohesion Policy. This funding is supposed to offer a solid platform for job creation and a significant boost for regions and cities in their quest to maintain Europe's global leadership in the field of green technologies.

The activities that should contribute to the EU's ambitious objectives in the fight against climate change – a 20% reduction in greenhouse gas emissions thanks to 20% share of renewable energies and 20% increase in energy efficiency by 2020 - are budgeted as such: 23 billion EUR for railways (6.6% of total Cohesion policy budget), 6 billion EUR for clean urban transport (1.7%), **4.8 billion EUR for renewable energies (1.4%) and 4.2 billion EUR for energy efficiency (1.2%)**. The allocations to EE/RES vary largely in each Member States, depending on its priorities, and are far not sufficient. In the New Member States (EU-12) between 1- 3% only are allocated to EE/RES actions, according to CEE Bankwatch².

When one compares the **low European funding available for EE/RES projects**, with great expectations of local authorities and other actors hoping to finance their projects through EU programs, a gap between two is flagrant. The projects with such a huge potential to save public money, often in a very short period of time, should be first financed from **local, regional and national sources where the real financial potential lies**. Moreover, the procedures set up at local, regional or national level are often less complicated than those underwent to obtain the EU funding. Then the maximum should be done by the Member States to use in the best way the European funding to co-finance actions with longer rate of return.

¹ European Commission, *Financial programming and budget*: http://ec.europa.eu/budget/budget_glance/what_for_en.htm

² Central and Eastern Europe Bankwatch Network: <http://www.bankwatch.org/>

1. The European Regional Development Fund (ERDF) gives opportunity to finance energy efficiency and renewable energy actions in housing sector in all EU Member States

In Europe 40% of our energy use is consumed in buildings, more than by industry or transport. There is a great potential for energy savings in this field, often at little cost. The European Cohesion policy supports the EE/RES actions in this sector through the European Regional Development Fund (ERDF).



Regulations valid until May 2009:

- ✓ **All EU Member States (MS)** could use ERDF for the EE/RES measures in **public buildings** (not housing), improvement of common spaces, RES installations on buildings and grid connections,
- ✓ Refurbishment of the housing stock (multi-family and social housing) can be financed **only in the EU-12 (New Member States)**. The allocation to housing expenditure is either a maximum of 3% of the ERDF allocation to the operational program concerned or **2% of the total ERDF allocation**,
- ✓ Total ERDF spending for housing by October 2008 was about **802 Mio EUR** which represents **0.77%** of the ERDF allocations for EU-12. This means that EU-12 MS used **only 38.5% of the available funding** offered by the Regulation (EC) N° 1080/2006

Regulations valid since May 2009:

Regulation (EC) No 1080/2006 amended on 6 May 2009³

Article 7

1 (a):

In each Member State, expenditure on energy efficiency improvements and on the use of renewable energy in existing housing shall be eligible up to an amount of 4 % of the total ERDF allocation.

Member States shall define categories of eligible housing in national rules, in conformity with Article 56(4) of Regulation (EC) No 1083/2006, in order to support social cohesion.

2. Expenditure on housing, except for energy efficiency and the use of renewable energy as set out in paragraph 1a, shall be eligible only for those Member States that acceded to the European Union on or after 1 May 2004, where the following conditions are met:

(a) expenditure shall be programmed within the framework of an integrated urban development operation or priority axis for areas experiencing or threatened by physical deterioration and social exclusion;

(b) the allocation to housing expenditure shall be either a maximum of 3 % of the ERDF allocation to the operational programs concerned or 2 % of the total ERDF allocation;

(c) expenditure shall be limited to:

- multi-family housing, or
- buildings owned by public authorities or non-profit operators for use as housing designated for low-income households or people with special needs.

³ Regulation No 397/2009 of the European Parliament and of the Council amending the Regulation (EC) No 1080/2006

- ✓ The amendment of the Regulation (EC) 1080/2006 (Article 7) allows that the **European Regional Development Fund (ERDF)** co-funds energy efficiency improvements and the use of renewable energy in housing (particularly multi-family and social housing) **in all Member States** up to a **ceiling of 4%** (3.5 billion EUR) of the Member State's total ERDF allocation.
- ✓ For instance, national, regional or local authority can use the co-financing for installation of double glazing, wall insulation or solar panels in housing, or replacement of old boilers with more energy efficiency ones.
- ✓ Member States must define categories of **eligible housing** in national rules⁴, in order to **support social cohesion**. The measure was first intended to apply only to "low-income households", but this caused problems because "low income" definitions differ from one Member State to another.
- ✓ These changes **do not increase funding or affect the Community budget**, but they do enable Member States to shift their priorities in order to finance measures in this field.
- ✓ **New Member States** will still be able to **fund other types of housing expenditure under the existing ERDF rules** (up to a maximum of 3% of the ERDF allocation to the relevant operational programs or 2% of the total national ERDF allocation). Total spending on housing in the new Member States, under various rules, could therefore **reach 6% of their total ERDF allocation**.
- ✓ **Three new types of costs will be eligible** for ERDF grants:
 - Indirect costs (up to 20% of direct costs of a given operation),
 - Flat-rate costs calculated using standard national scales,
 - Lump sums (up to 50,000 EUR).

These options may be combined only where each covers a different category of eligible costs or where they are used for different projects within the same operation. This change is meant to simplify the declaration of expenditure, and enable public authorities to prepare projects and measures faster and more efficiently. To ensure certainty as to the law, these new types of costs would be deemed eligible for ERDF funding with effect from 1 August 2006, when Regulation 1080/2006 entered into force.

Broadening the eligibility to EU-15 (Old Member States) was the key aim of the May 2007 European Parliament resolution on housing and regional policy, but it took the "impetus" of the financial crisis to get it introduced throughout the EU. It is expected to help create jobs in the building trade and, by reducing energy consumption, help to slow down the pace of climate change.

The decision whether or not to support energy investments in housing sector, by amending accordingly the national rules, remains an exclusive competence of the Member States; therefore it is necessary to convince them to use this opportunity.

⁴ In conformity with Article 56(4) of Regulation (EC) No 1083/2006

2. The use of ERDF for energy efficiency and renewable energy investments in (social) housing sector in Bulgaria, Romania and Poland

The EU-12 Member States will be able to finance energy efficiency and renewable energy measures up to 4% of the total ERDF allocation. Moreover, they will still be able to fund other types of housing expenditure (up to a maximum of 3% of the ERDF allocation to the relevant operational programs or 2% of the total national ERDF allocation). Total spending on housing in the new Member States, under various rules, could therefore reach **6% of their total ERDF allocation**.

The ERDF funding available for refurbishment of housing sector in **Bulgaria, Poland and Romania** in 2007-2013 could therefore reach the following figures:

Country	Total ERDF allocation per MS in 2007-2013 (in Mio EUR)	6% of total ERDF allocation per MS (in Mio EUR)
Bulgaria	3385	203
Poland	34 000	2040
Romania	9431	566

As to give an example of the scope of support from the structural funds, **in Bulgaria**, the total housing sector amounts to 3.8 Mio dwellings (2007). According to estimates, there are approximately **80,000 buildings** in very poor conditions which need urgently a comprehensive retrofitting. It would require an investment of **4 billion EUR**.⁵ If 6% of total ERDF allocation (203 Mio EUR) is fully used for EE/RES projects in housing, 5 % (in case ERDF co-financing rate is 95%) to 100% (in case ERDF co-financing rate is 5%) of these buildings could be refurbished.

Social housing across EU member states is characterized by a wide diversity of legal conceptions and policies and thus, by the lack of common definition of 'social housing' at the European level. In each country the social housing sector and providers of the housing stock were assigned specific missions to fulfill, according to public authorities' vision of their role in the society. In the EU-12 countries the situation in housing sector was affected by a process of transition from state regulated regime to a market economy, which was accompanied by a process of privatization of the housing stock⁶. The state of the buildings dedicated for low income households is in general very poor and often lies in the responsibility of public authorities (municipalities) whose budget is very restricted.

2.1 Bulgaria

State of the housing sector with focus on social housing

In Bulgaria, total housing sector amounts to 3.8 Mio dwellings (2007). The 96.5% of the housing stock in the country is a private property and 65% of the dwellings in the cities are multifamily buildings. The rest is owned by the public authorities.

The vast majority of Bulgaria's housing stock was built during the 1960s–80s and is constantly degrading, mainly due to insufficient maintenance and inadequate management by the owners.

⁵ The Demonstration Project for the Renovation of Multifamily Buildings: www.obnovendom.com/?page_id=213

⁶ Housing Europe 2007. Review of social cooperative and public housing in the 27 EU Member States.

Cecodhas, European Social Housing Observatory, 2007

Bulgaria’s Energy Efficiency Action Plan states that the residential sector accounts for 23% of the overall energy consumption in Bulgaria at the moment.⁷

Municipalities own the diminishing public rental stock (2% of the total stock) which is of a very bad quality. They have very limited possibilities to maintain existing stock and build new social housing buildings. Due to the lack of legal and financial prerequisites, there is no new construction of municipal rental (social) housing foreseen. The rental stock is very small, housing associations that would build and maintain the rental stock of moderate prices are not established and the average rent in the private sector is nearly ten times higher than the rent of social housing. A significant percentage of housing stock needs modernization (about 30% pre-fabricated housing).⁸

Existing cohesion policy operational programs and priorities in the housing sector with focus on social housing

Bulgaria explicitly supports EE/RES measures in housing and particularly social housing within its priorities. These measures are supported within **the Operational Program Regional Development** and the eligible beneficiaries are public authorities, non-profit social housing associations and associations of owners of multi-family residential buildings.

Operational Program Regional Development	
ERDF allocation: 1 361 Mio EUR	
Managing Authority: Directorate General “Programming of Regional Development” within the Ministry of Regional Development and Public Works	
Implementing Authority: Regional departments of DG “Programming of Regional Development” in particular regions	
Priority 1: Sustainable and integrated urban development	
Measure 1.2. Housing Policy	
ERDF allocation: 34 Mio EUR	
Total amount (ERDF + national co-financing): 40 Mio EUR	
Actions supported	Eligible beneficiaries
<i>Co-financing from ERDF: 85%</i>	
<i>Co-financing from national budget: 10%</i>	
<ul style="list-style-type: none"> Renovation of the common parts of multi-family residential buildings, such as: refurbishment of main structural parts of the building (roof, façade, windows/doors on the façade, staircase, inside and outside corridors, entrances and their exteriors, elevator); technical vertical installations (water supply, sewage, electricity, heating, communications, fire hydrants) of the building; 	<ul style="list-style-type: none"> Public authorities or non-profit corporate bodies (for example non-profit social housing organisations). Associations of owners of multi-family residential buildings.

⁷ Ib.

⁸ Housing Europe 2007. Review of social cooperative and public housing in the 27 EU Member States. Cecodhas, European Social Housing Observatory, 2007

- Delivery of **modern social housing** of good quality for vulnerable, minority and lower income groups and other disadvantaged groups, through renovation and privatization of existing buildings owned by public authorities or non-profit operators;
- **Energy consumption audits and energy efficiency measures** for all projects related to housing, mentioned above (e.g. thermal insulation, replacement of woodwork, local installations connected to central heating systems, gas supply connecting pipelines or alternative renewable energy sources).



However, the current strong budgetary restrictions at national and municipal level have been hindering the full use of the program. According to the Bulgarian National Association of Municipalities, municipalities in 2010 “will be giving up European projects, as they will not be able to provide the required 5% down payments from the municipal budget”.⁹ This means that they will not be able to use the Structural Funds and realize their projects. The new government elected in the middle of 2009 is revising the program at the moment with the aim to make the use of funds more efficient. Municipalities expect the government to undertake urgent steps in order to compensate the delay, reorganize the national budget and guarantee that Bulgarian municipalities will find necessary 5% co-financing for their projects.

Other **two currently running programs, not financed from the Structural Funds**, which support energy efficiency in housing are expected to prevent social exclusion by improving health and living conditions of targeted population through housing renovation, reducing greenhouse gas emissions and promoting good governance:

✓ **Residential Energy Efficiency Credit Line (REECL)**¹⁰

The REECL program is the biggest operating energy efficiency scheme for Bulgaria since 2005. It provides homeowners with loans and incentive grants through local participating banks. Loan money was provided by EBRD and the subsidy supplement was granted from “Kozlodui Fund”. To date (October 2009), the REECL Program has financed **28,269** energy efficiency home improvement projects, financed through personal loans of **43.5 Mio EUR** and incentive grants amounting to **7.7 Mio EUR**. The weak point of REECL Program is that it was targeted initially at individual apartment owners thus not creating incentives for building based energy efficiency activities. In the later stage of the project it was modified allowing homeowners to receive increased subsidy (30%) of the loan amount for renovation activities at the scale of entire condominium building.

⁹ Focus New Agency, <http://www.focus-fen.net/index.php?id=n199592>

¹⁰ <http://www.ebrd.com/projects/psd/psd2005/35703.htm>

✓ **Demonstration Project for the Renovation of Multifamily Buildings**¹¹

The project was launched in 2007 as a joint initiative of the Ministry of Regional Development and Public Works and the United Nations Development Program. It aims at developing a replicable scheme for renovation of multifamily buildings, consisting of three major components:

- Conditional subsidies to condominiums for renovation purposes.
- Facilitated access to loans for renovation.
- Technical assistance to the voluntarily associated homeowners of entire buildings for the organization of the renovation process building the real social capital in the city, by means of supporting voluntary associations of citizens.



Until nowadays, **56 voluntary associations** of condominium owners were established, **26 multifamily buildings** and their surrounding public areas refurbished, **renovation of 30 buildings** is underway in **24 municipalities involved**.

Recommendations elaborated in the process of carrying out the Project will be used for the future implementation of the “National Program for the Renovation of Residential Buildings” financed by the national budget, as well as for the **implementation of Measure 1.2 “Housing Policy” of the Operational Program Regional Development**.

Potential mechanisms increasing the use of the ERDF for housing and particularly social housing

Considering the poor conditions of the housing sector in Bulgaria and significant potential energy savings with a very short return on investment, the Bulgarian government should consider to make of the housing sector its top priority and make the **full use of ERDF available for housing renovation**.

“**The Demonstration Project for the Renovation of Multifamily Buildings**” identified the main barriers to large-scale retrofitting in Bulgaria¹²:

- ✓ Lack of tradition in the joint management of common property through associations of owners.
- ✓ Professional management of residential buildings is virtually unknown, whereas the renovation requires complex technical intervention, application of technical norms and eventual achievement of high standards.
- ✓ Impoverishment of the population during the transition years and thus its inability to finance the renovation of the housing stock (mostly privately owned), accompanied by lack of financial support mechanisms (e.g. low-interest loans and/or subsidies).



¹¹ The Demonstration Project for the Renovation of Multifamily Buildings: www.obnovendom.com/?page_id=213

¹² Ib.

One entire priority within the Operational Program Regional Development is dedicated to housing (explicitly social housing) and the beneficiaries are correctly identified, as public authorities and associations of owners of multi-family residential buildings represent the main target group.

Recommended measures

- ✓ The EE/RES action in the field of (social) housing should become a clear national priority with appropriate national budget allocated. EU funds should be used only as a complementary financial tool.
- ✓ The administrative procedures should be simplified to the highest possible level so that they are accessible to all eligible beneficiaries and human capacities within the Managing Authorities should be built to better deal with the distribution of the funds.
- ✓ The ERDF should co-finance only the projects aiming to refurbish a whole building.
- ✓ The Operational Programs should aim at supporting the creation of housing associations and setting up the professional management system of residential buildings. It should also co-finance energy-related information campaigns targeting tenants and owners of apartments (as a tool for spreading the knowledge of available financing schemes and a way of bringing about the behavioral change in energy use). This measure could be also included in one of the operational programs financed from the European Social Fund which might be more relevant for this type of action.
- ✓ A new law on the Condominium Ownership Management is acting from 1 May 2009 and sets up a mechanism dealing with deceitful householders. However, the reinforcement of this law aiming to enhance the relations between the apartment owners and joint management of common property would positively influence refurbishment of whole buildings and the use of the Structural Funds.
- ✓ The stricter eligibility criteria should be set for the new and existing social housing buildings stock – for instance only low energy or passive standard buildings should be constructed.
- ✓ When low energy standards are achieved, the eligible measures should be extended to renewable energy installations in buildings (solar, biomass, small wind turbines).
- ✓ In case where local or regional authorities are the owners of the housing stock, the EE/RES projects should become a priority and they should be a part of integrated urban development plan. Municipalities should consider making use of the European Jessica instrument¹³ (Sustainable Development for Urban Areas) if operational at national level. The instrument offers the managing authorities of structural funds the possibility to take advantage of the outside expertise while implementing particular projects. It also enables to have a greater access to loan capital for the purpose of promoting urban development, including loans for social housing.

¹³ Jessica – Sustainable Development for Urban Areas:
http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm

Actual use of the Structural Funds by municipalities for energy investments in the housing sector

The Bulgarian municipalities benefited so far from the programs funded, for example, by the UNDP. However, some of them (e.g. Pazardjik) were able to use the Structural Funds (Operational Program Regional Development, Operational Program Environment) within the programming period 2007-2009.

Refurbishment of multifamily buildings Smolyan (Bulgaria)



Source of funding :

Bulgarian Ministry of Regional Development and Public Works and UNDP (“Refurbishment of Multifamily Buildings” project)

Project duration:

2008 - 2009

Project description:

In 2008, two residential blocks (22 households) were refurbished. The result of energy saving measures implemented is the reduction of average monthly cost of heating and hot water for residents by 20 to 40% and increased living standard. The environmental effect is 50 tons of CO₂ emissions saved per year.

Modernization and refurbishment of 5 schools, social buildings and an integration centre for people with disabilities in three villages Pazardjik (Bulgaria)



Total investments:

6.7 Mio EUR

Source of funding:

ERDF, Operational Program Regional Development 2007-2013

Project duration:

February 2009 - March 2010

Projects description:

The aim of the project is to provide a modern educational environment in five schools, integration centre for people with disabilities and social buildings through refurbishment of the buildings, replacement and modernization of heating system and electrical installation. Three villages within the Pazardjik municipality benefited from the Structural Funds and other six projects for reconstruction and rehabilitation of water supply and sewerage networks are under preparation within the Operational Program Environment 2007-2013.

2.2 Poland

State of the housing sector with focus on social housing

In Poland, 22% of municipal and 67% of co-operative dwellings were privatized at discounted prices by 2001. However, ownership of the buildings and common services remained with the original institution rather than being passed over to the households living in the structure. Therefore, co-operatives represent a large share of the housing market (21% of the total housing stock). The social housing is mainly managed by municipalities, housing cooperatives and low cost housing societies (TBS). The housing stock in Poland, compared to its population is one of the smallest in Europe and its quality is often very poor. 60% of the stock needs a significant repair and 10% requires major renovation. Many buildings lack adequate insulation, resulting in high heating costs and energy consumption having a strong impact on household's expenditures.

Goals of the national housing policy are to reorganize the legal framework of social housing, to introduce new regulations allowing the increase in new housing constructions and prevent further degradation of existing housing stock and social exclusion in the context of access to housing. There is an ambition to co-finance the selected housing investments with the structural funds.¹⁴

Existing cohesion policy operational programs and priorities in the housing sector with focus on social housing

The EE/RES actions concerning the housing sector in Poland are included in the **Operational Program Infrastructure and Environment** and in the **Regional Operational Programs**.

Operational Program Infrastructure and Environment

Cohesion Fund + ERDF allocated: 27 848 Mio EUR

Managing Authority: [Ministry of Regional Development](#)

Measure 9.4: Production of energy from renewable sources

Implementing Authority: Institute for Fuels and Renewable Energy

Cohesion Fund + ERDF allocated: 1 762 Mio EUR

Actions supported	Eligible beneficiaries
<ul style="list-style-type: none"> • For projects supported with national regional aid, 20% of eligible expenditure. • For projects covered by the horizontal aid for environmental protection - not more than 20% of the project (either way, the OP support cannot exceed 40 million PLN, or around 10 Mio EUR) 	
<ul style="list-style-type: none"> • Construction of a wind farm • Construction of hydroelectric plant with a maximum power of 10 MW • Construction of biomass or biogas power plants • Construction of geothermal heating plant 	<ul style="list-style-type: none"> • Entrepreneurs. • Local government units and their unions and associations. • Entities carrying out public services. • Churches and their associations.

¹⁴ Housing Europe 2007. Review of social cooperative and public housing in the 27 EU Member States. Cecodhas, European Social Housing Observatory, 2007.

- Installation of solar panels.

This Measure may be also applied to housing sector.¹⁵ The condition is the minimal value of the project, which has to reach 20 million PLN (around 5 Mio EUR). This is considered to be a main obstacle for the use of this kind of funding for RES installations of residential buildings, since the value of such projects is usually much lower.

These are mostly **16 Regional Operational Programmes (ROP)**, which are meant to finance energy efficient and renewable energy sources measures in the housing sector (see examples of ROP in **Annex 1**).

The main reason for that is not only the required value of an investment but the list of eligible beneficiaries. While municipalities (*gmina* - basic unit within the self-government system in Poland) are eligible to apply for funding provided by central operational programmes, they are responsible only of about 20% of housing stock in Poland. The remaining part belongs primarily to housing co-operatives (*spółdzielnia mieszkaniowa*) and housing communities (*wspólnota mieszkaniowa*) which can benefit from regional funds. What has to be noted, however, is that housing co-operatives and communities are not listed as possible beneficiaries on all regional priority axes related to EE/RES (sometimes these are municipalities, which decide about redistribution of funds within projects they manage; thus they can decide about allocating funding to a given type of housing or not).

Primary beneficiaries of the EU Structural Funds for housing renovation in Poland:

- 1) Municipalities (in practice main beneficiaries).
- 2) Social Building Societies (TBS).
- 3) Housing cooperatives.
- 4) Housing communities.
- 5) Other (NGOs, churches etc.).

Polish authorities have adopted the principle of allocating funds under the ERDF to a maximum of 3% of the allocation of the fund in the ROP.

As for the **social housing**, it relates above all to municipal housing, TBS buildings and cooperatives (see definition of these bodies in **Annex 2**). They can benefit from housing-related tax relieves, state-provided payment guarantees and subsidies provided by state-owned bank subsidiary (National Housing Fund). Co-financing of investments by TBS, housing cooperatives and housing communities with Structural Funds is difficult, but possible. Most of the Structural Funds are spent on municipal



¹⁵ According to the document *Development and promotion of comprehensive thermo-renovation solutions in residential buildings of a lower standard prepared by ROSH - Retrofitting of Social Housing (program funded by IEE)*

investments, which are implemented by local governments. Cooperatives, communities, TBS and municipalities can apply for EU grants for revitalization of degraded urban areas as part of regional operational programmes.

Total allocation for EE/RES actions in particular voivodeships (regions), taking into account that the value of co-financed projects cannot exceed 20 Mio PLN (5 Mio EUR), varies from one region to other (see **Annex 3**). Not all the regions recognized the housing issues as important. In fact, the limit of the ERDF allocation adopted by voivodeships in their ROPs is different and it varies from 0% in the Podlaskie to 3% (maximum level of ERDF allocation) in Kujawsko - Pomorskie.

In the Pomorskie voivodeship housing cooperatives alone cannot apply for funds, and in Podlaskie voivodeship, due to the low value of the allocation and scale of other problem areas, funds for the revitalization of the housing sector have not been provided at all.

Taking steps to improve the situation of **residential neighborhoods** has a special place within the ROP. The problem of degraded housing tissue concerns largely co-operative settlements, which arose in the years 1970 - 1990, and are inhabited by nearly a third of Polish population. Housing from the period of the communism is usually characterized by technological defects, negligent workmanship, poor quality construction materials or disharmony with the surrounding environment.

For this aim, a **special “revitalization” priority has been created** within operational programs (sometimes it also co-finances RES installations, but in general it is separate from energy priorities). In some ROP, range of options to revitalize housing infrastructure is so large that it is possible to almost completely change the face of a housing estate.

In contrary to rather delayed implementation of projects co-financed with Structural Funds, the projects implemented with support of other **financial instruments at a national level** (described in the **Annex 4**) might constitute a source of inspiration for future projects co-financed with the Structural Funds. Out of all state-funded measures, the most popular were grants provided by the EkoFundusz Foundation and loans and grants from the National Fund for Environment Protection and Water Management.

Apart from the EU structural funds, there are many **national funds** co-financing measures in the housing sector, which until now have been much more popular among possible beneficiaries. One reason for that is relative easiness in obtaining such support. Among these programs are:

- ✓ Thermo-modernization Fund
- ✓ EcoFund (EkoFundusz)
- ✓ Funds provided by The National Fund for Environment Protection and Water Management (or its regional branches)
- ✓ Preferential loans provided by the Bank for the Environment Protection (Bank Ochrony Srodowiska – BOS)
- ✓ Global Environment Facility (GEF) program

More detailed descriptions of the programs can be found in **Annex 4**

Potential mechanisms increasing the use of the ERDF for housing and particularly social housing

Practical effects of the new EC regulation on Polish housing depend now on domestic policy. Poland has received approximately 35.1 billion EUR from the ERDF for the period 2007 – 2013 and funding was directed mostly to following Operational Programs: Regional Operational Programs (16.6 billion EUR), Innovative Economy (8.3 billion EUR), Infrastructure and Environment (5.7 billion EUR), Development of Eastern Poland (2.3 billion EUR).

Recommended measures

- ✓ Approximately **1 billion EUR from the ERDF makes for a reserve**, meant to be used after 31 December 2011. Given this reserve and possibility to transfer small amounts of sums between operational programs, there is a possibility of allocating more funds for housing.
- ✓ The **ERDF funds should be used in the most efficient way** - subsidies, grants, guarantee instruments, loans, and other financial instruments. This remains a matter of national housing policy.
- ✓ **Set up lower minimal value of the project** that at the moment has to reach 20 Mio PLN (around 5 Mio EUR). This is considered to be a main obstacle for the use of this kind of funding for RES installations of residential buildings, since the value of such projects is usually much lower.
- ✓ **Include housing cooperatives and low cost housing societies as main beneficiaries** to all operational programs concerning the housing sector in spite of encountered difficulties.
- ✓ **Include the priorities in the field of housing and social housing** to all Regional Operational Programs with the highest possible rate of the available ERDF funding.
- ✓ **The Jessica financial instrument** could be considered as it was recommended in the case of Bulgaria.



Actual use of the Structural Funds by municipalities for energy investments in the housing sector

As for the second half of 2009, it is difficult to evaluate the impact of Structural Funds on the energy infrastructure in the Polish housing sector. Most of energy-related projects realised within the “revitalization axis” of particular Regional Operational Programs concerned primarily heritage sites and public domain buildings (like the refurbishment of the local town square, thermo-modernization of schools and hospitals etc.), rather than housing sector. However, some projects related to the revitalization of the housing stock have already been realized.

**Modernization of the heating system and thermo-modernization of buildings
Poddębice, Łódzkie Voivodeship (Poland)**



Total investments:	2.3 Mio EUR
Sources of funding:	<ul style="list-style-type: none"> ✓ Loan from the National Fund for Environment Protection and Water Management (35.3%). ✓ Grant provided by EkoFundusz / EcoFund (30%) - the project has been declared a winner in the ninth edition of EcoFund's - a nationwide contest in the field of energy saving heating systems and received the award in the form of a grant of 2 774 130 EUR, which has covered nearly 30% of project costs. ✓ Self-financing (34.7%).
Project duration:	2004

Project description:
The **aim of the project** was to limit the pollution through the replacement of three coal-based sources of heating with a single gas boiler and solar system (715 flat collectors with a total surface of 1287 m²). It is estimated that the installation of solar panels should cover 36% of annual demand for hot water. In addition, a comprehensive thermo-modernization works were carried out (installation of radiators with thermostatic valves and heating cost divisors, replacement of doors and windows, isolation of exterior walls). The heating network has also been modernized. Nodes equipped with heat exchangers and water pumping systems have been put in place.

**Revitalization of apartment houses at 45 and 47 Księcia Witolda street
Wrocław, Dolnośląskie, Lower Silesian Voivodeship (Poland)**



Total investments:	1.1 Mio EUR
Source of funding:	ERDF: 75% of the total eligible expenditure (115.000 EUR) Regional Operational Program (Measure 3.3 Degraded urban, post-industrial and former military areas)
Project duration:	2 nd quarter 2005 - 2 nd quarter 2009

Project description:
The main **objective** of the project was the refurbishment of houses located at 45 and 47 Księcia Witolda street with the aim to improve the technical facilities - the new heating, gas, water supply, sewerage and electricity system were installed, walls, floor interim passages and window cavities of buildings were insulated. New service premises were set up within buildings, thus providing appropriate conditions and infrastructure for the development of small and medium business.

2.3 Romania

State of the housing sector with focus on social housing

In Romania, social housing is defined as a dwelling owned by local authorities and not subject to sale. The government partly finances social housing constructions through transfer to local authorities. Limited local resources and low rent levels that do not even cover maintenance costs are major obstacle to the renewal of social housing units. The physical conditions of most multi apartment buildings are quite poor. In 2001 it was estimated that about 80% of the dwellings would come to the end of their life time within 20 years unless serious measures are taken. After the privatization process, which brought almost the entire housing stock (95%) to into people's ownership, public authorities have withdrawn from their role in ensuring housing policies¹⁶.

The goals of the national housing policy are to develop a program for housing construction, rehabilitation of the existing stock and to develop a new social rental sector.

Existing cohesion policy operational programs and priorities in the housing sector with focus on social housing

Romania has some priorities focused on EE/RES measures; however, the eligible actions are not specified in details. The only priority that could theoretically support EE/RES measures in housing exists within the Operational Program Competitiveness and Economic Growth and local authorities can apply as eligible beneficiaries.

Operational Program Competitiveness and Economic Growth

ERDF allocated: 2 500 Mio EUR

Managing Authority: Ministry of Economy and Finance

Implementing Authority: Intermediate Body delegated by Ministry of Economy and Finance

Priority 4: Increasing energy efficiency and security of supply, in the context of combating climate change

Measure 4.3: The improvement of energy efficiency by the end users

Actions supported	Eligible beneficiaries
<i>Co-financing from ERDF: 95% + local budget 2-5%</i>	
<ul style="list-style-type: none">• Efficient and sustainable energy (improving energy efficiency and environmental sustainability of the energy system).• Valorization of renewable energy resources for producing green energy.	<ul style="list-style-type: none">• Local authorities

Potential mechanisms increasing the use of the ERDF for housing and particularly social housing

Romania does not specify in details the eligible EE/RES actions and one can imagine various measures that could be eligible under the terms "sustainable energy use" or "valorization of

¹⁶ Housing Europe 2007. Review of social cooperative and public housing in the 27 EU Member States. Cecodhas, European Social Housing Observatory, 2007

renewable energy sources” mentioned within the few priorities focused on EE/RES that exist. Housing and social housing are not specifically mentioned in any operational program/priority.

Recommended measures

- ✓ The fundamental condition for better use of available ERDF funding is to **set up new priorities** focused exclusively on housing, making use of all measures recommended by the ERDF regulation or even going beyond.
- ✓ Romania could review how the EE/RES measures in (social) housing sector are supported in other EU member states and **transfer good practices**.
- ✓ The **Jessica financial instrument** could be considered as it was recommended in the case of Bulgaria and Poland.

Conclusion

The European Union (EU) is leading the global fight against climate change, and has made it a top priority. Its ambitious targets are spelt out in the EU Climate Action and Renewable Energy Package which commits Member States to curb their CO₂ emissions by at least 20% by 2020 through improved energy efficiency and use of renewable energy sources.

The **housing sector, responsible for 40% of the EU CO₂ emissions**, represents a huge potential for energy and emissions savings.

The policy at EU level is adopted and the facts are clear – we know in which sectors and how to act to achieve the common objectives. The EU even allocates some funds for EE/RES actions in housing sector, e.g. through the Cohesion policy. Since May 2009, all EU Member States can allocate 4% of their total ERDF allocations to energy efficiency measures in housing, in particular social housing.

It would seem that all the conditions are favorable but the reality is different – **EE/RES actions are still not the priority of the EU Member States and/or the European funds are rarely used** for this type of actions.

The case of three EU-12 countries – Bulgaria, Poland and Romania - proves that the Structural Funds available for improvement of housing and particularly social housing sector, are not fully used also for the following reasons:

- ✓ **Housing and social housing are not the priorities or national budgets allocated to these sectors are not sufficient** to co-finance projects supported by the Structural Funds:
 - In Romanian operational programs, (social) housing is mentioned very vaguely - eligible measures are not specified in details.
 - In Bulgaria, the priorities in the operational programs are well identified, however municipalities have difficulties to find even 5% co-financing for their EE/RES projects as national budget is not allocated to this type of measures.
- ✓ **Administration of the Structural Funds and criteria of their use are complicated**; national governments are lacking human capacities to manage the funds or these are not compatible with / supplementary to the operational national schemes:
 - In Bulgaria, the programs implemented in cooperation with UNDP or EBRD are operational, unlike the operational programs financed from the Structural Funds.
 - In Poland, the national schemes and programs are more popular and efficient than Structural Funds.
- ✓ **Structural Funds are useful for co-financing projects at national level but often create unjustified expectations**. Only 1.24% of the EU's gross national income (GNI) is allocated to the EU budget. 45% of the GNI goes directly to national, regional and local public expenditure. The priorities and relevant mechanisms should be though first set up at these levels.

The 45% of the EU's gross national income goes to national, regional and local public expenditure while the EU's budget (allocated partly to the EU programs and financial instruments such as the Structural Funds) represents only 1.24%. The EU funding is supposed to be supplementary to national funding; it's not supposed to replace it.

Unless the clear objectives and strong political, legal and financial supporting mechanisms are set up at national, regional and local level (where the real political and financial potential lies), the European objectives and funding will always remain for Member States rather a burden than opportunity.



Annex 1: Exempts from the Polish Regional Operational Programs

Regional Operational Program for Łódzkie Voivodeship

Priority 2 - Environment, risk prevention and energy

Action 2.9 - Renewable energy sources

Beneficiaries:

- local government units, their unions and associations,
- local government's organizational units with legal personality,
- government administration,
- public finance sector units with legal personality that are not listed above,
- universities,
- entrepreneurs
- housing cooperatives and housing communities, social housing societies¹⁷
- academic institutions,
- health care facilities operating in the public health system.

Forms of support:

The maximum share of the EU funding in eligible expenditure: 85% for projects not covered by public assistance.

The maximum value of the project is 20 Mio EUR in the case of:

- investments involving advanced technologies and know-how,
- construction, expansion and modernization of equipment that would serve for the production and transmission of renewable energy,
- investments associated with the production of biofuels, which are not agricultural products.

The maximum value of the project is 10 Mio EUR in the case of:

- electricity generation from biomass or biogas,
- construction or expansion of small hydropower.

Within the ROP for Łódzkie Voivodeship for the period 2007 - 2013 (in areas covered by the Rural Development Program for the period 2007 - 2013), as for renewable energy projects, support will be given to projects:

- worth a minimum of 3 Mio PLN
- a value of less than 3 Mio PLN - only if the commune can no longer benefit from support from the Rural Development Program for the period 2007 - 2013.

Within the program (for areas not covered by the Rural Development Program for the period 2007 - 2013) projects will be implemented without quota restrictions.

Minimum / Maximum amount of support: not specified.

¹⁷ Social Building Society (TBS) - entities established by the Law of 26 October 1995 about promoting some forms of construction, whose purpose is to implement tasks arising from the above-mentioned Act, in particular the construction of apartments for rent, with reasonable rents, for middle-income people, using funding provided by the National Housing Fund.

Priority 6 - Urban renewal

Action 6.2 – Renovation of housing

Contribution from the ERDF for housing expenditure includes only expenditure incurred for the renovation / modernization (not new construction) of multi-family dwellings. ERDF funding may also be used to adapt the buildings owned by public entities or non-profit entities for further use as housing for households or persons with special needs. Thus, the eligibility of expenditure on the housing infrastructure will be possible in two ways:

- for the renovation of multifamily residential buildings,
- adaptation and renovation of buildings for housing for people with special needs.

Support in the first case will include renovation and modernization of the common parts of the existing multi-family buildings (residential building, where there are more than two dwellings), including the rehabilitation and modernization of the common parts of buildings made from prefabricated components used in the modular building.

In accordance with Commission Regulation (EC) No 1828/2006, expenses for renovating common parts of the building shall be considered eligible when they comprise:

- building components: roof, front elevation, window and door woodwork, staircase, internal / external corridors, entrances and elements of their external construction, elevator;
- technical installations of the building
- increase of buildings' energy efficiency / savings (thermo-modernization).

In the second case, ERDF funds can support measures aiming to prepare for use to modern social housing of good quality through renovation and adaptation of existing buildings owned by public authorities or non-profit entities. Adapted rooms for residential purposes are intended for households with low incomes or for people with special needs.

Beneficiaries:

- local government units, their unions and associations,
- local government's organizational units with legal personality,
- NGOs
- Churches and religious associations and legal persons of churches and religious organizations (if they create housing for the homeless and protected housing)
- housing cooperatives and housing communities, social housing societies

Total financial allocation for the action: 11 756 874 EUR

Contribution from the EU for the action: 9 993 343 EUR

Contribution from public funds for national action: 1 604 813 EUR

The anticipated volume of private activity: 158 718 EUR

Grant: the maximum share of EU funding in the eligible expenditure is 85%

Minimum / maximum value of the project: not determined.

Minimum / maximum amount of support: not specified.

Project must be implemented in urban areas and must be included in the Local Revitalization Program developed for the city.

Regional Operational Program for Dolnośląskie (Lower Silesia) Voivodeship

Priority 5 – Regional environmentally friendly energy infrastructure

Action 5.1 – Renewable energy sources

The Action aims at increasing the share of energy generated from renewable sources. Within this Action, projects in the field of international cooperation and interregional cooperation in the energy field will also be financed.

Because of the regional specificity, only projects related to the generation of energy from renewable sources based on water power (including geothermal) and biomass will be co-financed. Installation of solar panels will be co-financed within other priority axes, such as “Health” or “Education”.¹⁸

Beneficiaries:

- public finance sector units,
- unions and associations of local government units,
- economic units
- regional water boards,
- NGOs
- higher education institutions.

Funding earmarked for projects concerning:

- construction and modernization of facilities generating renewable energy based on water power (including geothermal) and biomass;
- interregional and international cooperation (including seminars, conferences).

The maximum share of the EU funding in the eligible expenditure:

- up to 85%. for projects not covered by public aid,
- projects covered by the public aid in line with state aid rules,

Minimum /maximum value of the projects which do not concern international and interregional cooperation:

- in areas not covered by the Program for Rural Development: from 300 000 PLN to 10 Mio PLN
- the areas covered by the Program for Rural Development: from 3 to 10 Mio PLN (applicable only to municipalities).

If the project involves international or interregional cooperation, maximum amount of support is 30 000 PLN.

Areas covered by the Rural Development Program are rural areas and towns of no more than 5 thousand residents.

Grants will be available in the form of refunds, advance or cost settlements (in the case of state budgetary units).

¹⁸ This excluded co-financing of solar panels on housing buildings

Priority 9 - Renewal of degraded urban areas in Lower Silesia

Action 9.1 - Renewal of degraded urban areas in cities of over 10 thousand people¹⁹

Action aims to restore degraded urban areas in the cities of Lower Silesia with more than 10 thousand people.

Support will be provided for projects which contribute to restoring the utility and nature value of the cities of Lower Silesia (with more than 10 thousand people), which have been destroyed by human activities. It primarily relates to areas where the mining industry and military bases and training grounds were formerly located.

Funding may also be provided for projects in the field of international cooperation and interregional cooperation (such as seminars, conferences) to exchange experiences in the field of regeneration.

All projects proposed must be included in the Local Revitalization Programs.

Beneficiaries:

- local government units and their unions and associations,
- units of local government units, which have legal personality,
- housing cooperatives and housing communities
- social housing societies
- social aid entities
- NGOs
- economic and professional self-governments, and trade unions
- public administration
- beneficiaries listed in following priorities: 2 - "Information Society", 3 - "Transport", 4 - "Environment and Ecological Safety", 5 - "Energy", 6 - "Tourism and Culture", 7 - "Education" (for projects listed in these priorities)

Funding is provided for projects in the cities of Lower Silesia with more than 10 thousand people, in particular for:

(naming projects, which have been listed in previous priority axes; also those related to RES, energy distribution networks, construction of heating plants - including cogeneration; thermo-modernization)

Grants of up to 70% of eligible project costs for projects not covered by public assistance.

Minimum project value: 100 000 EUR (not applicable to projects of international cooperation and interregional).

The maximum amount of support for projects of international cooperation and interregional: 30 000 EUR.

¹⁹ Action 9.2 relates to smaller cities

Funding will be available in the form of refunds, advance or cost settlements (in the case of state budgetary units)

Total financial allocation for action: 137 400 558 EUR

Contributions from EU funds for the action: 96 180 391 EUR

Contribution from public funds for the action: 26 771 862 EUR

The anticipated volume of private contribution: 14 448 305 EUR

Annex 2: Definition of the main structural funds beneficiaries for housing renovation in Poland

Primary beneficiaries of EU structural funds for housing renovation in Poland:

- 1) Municipalities (communes) – in practice main beneficiaries
- 2) Low cost (or Social) housing societies (TBS)
- 3) Housing cooperatives
- 4) Housing communities
- 5) Other (NGOs, churches etc.)

As for the social housing, it relates above all to municipal housing, TBS buildings and cooperatives. They can benefit from housing-related tax relieves, state-provided payment guarantees and subsidies provided by state-owned bank subsidiary (National Housing Fund).

Co-financing of investments by TBS, housing cooperatives and housing communities with structural funds is difficult, but possible. Most of the structural funds is spent on municipal investments, which are implemented by local governments. Cooperatives, communities, TBS and municipalities can apply for EU grants for revitalization of degraded urban areas as part of regional operational programs.

Low cost (or social) housing societies (TBS), created in 1995, own and manage about 70,000 dwellings and manage about 150,000 dwellings on behalf of municipalities and of housing associations. Together with the implementation of the TBS system, the production of new municipal housing has almost stopped. There are about 450 such societies and the rent for this type of housing is set by Municipal Councils. Dwellings are allocated according to income limits.

Ownership structure:

75% - Home ownership

13% - Private rental

12% - Social rental

Housing co-operative - a democratic form of association. In contrast to housing communities, they have their own assets (separate from the assets of members) and the legal personality. Property of the cooperative is a common property and belongs to all members. The aim of cooperatives is improving the income of all members and running a common economic activity in the interests of members. The division and allocation of surplus is decided by members of cooperatives. However, its main objective is construction of housing and administration of available resources in the interests of residential population (members of a cooperative). Governing bodies of the cooperative are: Management, Supervisory Board and General Assembly. Today, they represent about 21% of the housing stock. They are often considered to be a relict of communist times, as the privatization process has left many apartment blocks in cooperative hands, instead of passing them to households living in a structure.

Housing community – total number of owners of dwellings in a property. It arises automatically by operation of law at the time of signing a deed of purchase of the first dwelling in a particular real estate buildings. Community has no legal personality or its own separate property, but may incur obligations and acquire new rights. Owners of individual dwellings have their share in the common property. The size of each share shall be determined in a notarial act. Communities are considered to be more effective and less expensive to support, as inhabitants may even fulfil their functions on a

voluntary basis. The number of housing communities grow bigger together with developments in the privatization process. Today, share of home ownership in the total housing stock in Poland makes for about 75%.

Annex 3: Total allocation for EE/RES actions in particular voivodeships (regions) in Poland

Voivodeship	Dedicated Action within ROP	Total allocation (Mio EUR)
Dolnośląskie	5.1-Alternative energy sources	21,7
Kujawsko-Pomorskie	2.4-Environmentally friendly energy infrastructure	36,0
Lubelskie	6.2-Environmentally friendly energy	23,3
Lubuskie	3.2-Improvement of air quality, energy efficiency and use of renewable energy sources	18,6
Łódzkie	2.9-Renewable energy sources	32,2
Małopolskie	7.2-Improvement of air quality and greater use of renewable energy sources	28,7
Mazowieckie	4.3-Air protection, energy	146,8
Opolskie	4.3-Air protection, renewable energy sources	20,1
Podkarpackie	2.2 – Energy infrastructure	63,8
Podlaskie	5.1-Development of regional infrastructure for the environment protection	38,5
Pomorskie	5.4-Development of energy based on renewable sources	16,5
Śląskie	5.3-Clean air and renewable energy sources	57,8
Świętokrzyskie	4.1-Development of regional infrastructure for energy and environment protection	59,8
Warmińsko-Mazurskie	6.2-Protection of environment from pollution and devastation	44,9
Wielkopolskie	3.7-Greater use of renewable energy sources	20,6
Zachodniopomorskie	4.1-Renewable energy and energy management	21,0

Annex 4: State-funded instruments of co-financing EE/RES measure in housing sector in Poland

Program/Fund	Functioning
<p>Thermo-modernization Fund</p> <p><i>More information in English:</i> http://www.bgk.pl/index.php?module=site&catId=432&en</p>	<p>The fund provides a so-called Thermo-modernization Premium. It is a form of state aid to the investor pursuing a thermo-modernization or RES project (also in the housing sector). Is granted by the Bank of National Economy (<i>Bank Gospodarstwa Krajowego</i>) at the amount of 25% of the credit, taken to finance the project. Thanks to the premium, the investor covers only 75% of the credit.</p>
<p>Global Environment Facility (GEF) program</p>	<p>Financial mechanism managed by three UN agencies. It runs until the end of June 2011 and on the Polish level, it is managed by the Bank of National Economy. It relates to all installations aiming at the energy saving. BGK signs contracts with commercial banks, under which it grants the guarantees of up to 70% of the amount of loans for energy efficient projects (consisting of investments or modernization aimed at reducing the loss or improvement in the efficiency of energy use in the buildings, district heating systems or heating networks). Thanks to the guarantees, the credit rate is lowered by the amount of 1-2 points.</p>
<p>EcoFund (EkoFundusz)</p>	<p>Foundation established in 1992 by the Minister of Finance for the efficient management of financial funds originating from the conversion of parts of the foreign debt to support projects related to environmental protection. It provides financial grants for projects of a significant importance the region or country. Eligible to participate in the competition is the owner of the building. Usual level of co-financing – 30% (may be more)</p>
<p>Funds provided by The National Fund for Environment Protection and Water Management (or its regional branches)</p> <p><i>More information in English:</i> http://www.nfosigw.gov.pl/site/index_en.php</p>	<p>Financial support for investments supporting low emissions and the installation of RES; It provides funds for local authorities, which can then co-finance EE/RES projects of its citizens (single persons, companies, housing cooperatives etc. – wide range of possible beneficiaries)</p>
<p>Preferential loans provided by the Bank for the Environment Protection (Bank Ochrony Srodowiska – BOS)</p>	<p>Loans for environmental investments as well as consulting and intermediate financing for EU funded projects; bank is mostly state-owned</p>