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Sustainable finance in Poland

The state of play and prospects for progress

The debate on sustainable finance and ESG integration in Poland is still in its early stages. It requires further discussion not only to present the ongoing actions at the EU level but also to introduce the topic in a more structured and comprehensive manner to the public and to the representatives of the financial sector.

Maciej Bukowski, Aleksander Śniegocki, Zofia Wetmańska

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WiseEuropa Institute is an independent think-tank and research organization based in Warsaw that undertakes a strategic reflection on European politics, foreign policy and economy.

The mission of WiseEuropa is to improve the quality of Polish and European policy-making as well as the overall business environment by promoting the use of sound economic and institutional analysis, independent research and evidence-based approach to impact assessment.

In 2016 WiseEuropa has set up The Capital Market 25+ Research Program, which outlines the future development prospects for the capital market in Poland. Aiming to embed the ESG dimensions permanently in the financial sector architecture, WiseEuropa conducts analytical activities to facilitate transformation of a capital market into a driver of change needed to achieve a sustainable and inclusive growth.

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The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice.

Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

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The PRI's perspective on the Report

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The six Principles were developed by investors and are supported by the UN. They have more than 2,000 signatories from over 50 countries, representing US$81.7trn of assets. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practice. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

As of January 2019, there are 13 signatories in the PRI's Central and Eastern Europe network, including investors from Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Russia and Turkey. They are mostly investment managers, private equity or diversified asset management firms but, in late 2017, Česká spořitelna – penzijní společnost, a pension company operating in the supplementary pension savings market in the Czech Republic, became the first asset owner in the region to join the PRI. Industry membership associations such as the Bulgarian Investment Managers Association and the Concessionaires and Long-term Infrastructure Investors National Association in Russia support PRI's outreach efforts in their respective countries as Network Supporters.

In general, local investors across the region have been showing greater interest in ESG and the PRI since late 2016. Since then, the PRI has widened its outreach activities in Poland, running an educational workshop on ESG integration in investment decisions for CFA Society Poland, and engaging in discussions with a number of stakeholders to promote responsible investment.

This document on the current state of sustainable finance in Poland was commissioned by the PRI to reinforce this work and to encourage further dialogue on the subject with interested parties. It is part of the PRI's broader commitment to working towards a sustainable financial system, and specifically its commitment to the European Commission-led sustainable finance action plan. This document is part of continued work with signatories and the European Commission to implement the action plan and support the delivery of the accompanying legislative measures.

For more information on the European Commission's action plan on sustainable finance, see here[1]

1 PRI (2018), Explaining the EU Action Plan For Financing Sustainable Growth

Acronyms

- **KNF** – Komisja Nadzoru Finansowego, the Polish Financial Supervision Authority
- **ZUS** – Zakład Ubezpieczeń Społecznych, Social Insurance Institution
- **OFE** – Otwarte Fundusze Emerytalne, Open Pension Funds
- **PTE –** Powszechne Towarzystwa Emerytalne, General Pension Societies
- **IKE** – Indywidualne Konta Emerytalne, Individual Retirement Accounts
- **IKZE** – Indywidualne Konta Zabezpieczenia Emerytalnego, Individual Pension Security Accounts
- **PPE** – Pracownicze Programy Emerytalne, Occupational Pension Programmes
- **PPK** – Pracownicze Programy Kapitałowe, Employees Capital Plans
- **KNUiFE** – Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych, Insurance and Pension Funds Supervision Commission

1. The regulatory framework

The Polish financial market is currently supervised by **The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego – KNF)**. In 2006, it took over the competencies of independent bodies responsible for different segments of the market, namely the Insurance and Pension Funds Supervisory Commission, the Securities and Exchange Commission, the Commission for Banking Supervision and the General Inspectorate of Banking Supervision.

KNF is Poland's main financial regulatory authority, responsible for the functioning of the banking sector, its capital market, insurance industry, pensions sector, financial conglomerates, electronic money institutions, payment institutions, payment service bureaus, cooperative savings and credit unions.

The KNF is answerable to Poland's prime minister, who oversees its operations and appoints the chairperson of the Authority. In addition to the chairperson, the KNF is run by two deputy-chairpersons and five members, representatives of:

- the Minister responsible for the Economy,
- the Minister of Finance,
- the Minister of Family, Labour and Social Policy,
- the National Bank of Poland, and
- the President of the Republic of Poland.[2]

The actions of the KNF are supported by the KNF Office, which comprises a number of departments that are providing expertise on those aspects of the Polish financial market within the competences of the KNF. The main objective of the office is to ensure the stability and safe development of the financial market.

In addition, the Ministry of Finance and the Ministry of Family, Labour and Social Policy are responsible for the implementation of the policies that regulate investment activity, and which provide guidelines for investment policies, of pension funds, insurance companies and other asset managers, of which overviews can be found in the following sections.

2 KNF (2017), Composition of the KNF

1.1 Pension funds

Basic information and regulatory framework

The current structure of the Polish pension system has been in place since the introduction of new regulations that came into force in 1999 (namely the 1998 Act on Old-age Pensions and Disability Pensions Paid from The Social Insurance Fund). It is structured as a multi-pillar system of compulsory and voluntary accounts, with complementary pay-as-you-go and capital-funded components. Mandatory contributions to workplace pension funds amount to 19.52% of earnings and are paid in equal parts by employers and employees.

Box 1. Classification of elements of the pension system

	Compulsory			Voluntary	
	Pay-as-you-go system	**Capital-funded system**		**Pay-as-you-go system**	**Capital-funded system**
Public	I pillar	-	**Public**	-	-
Private	-	II pillar	**Private**	-	III pillar

The **first pillar** is managed by a public body called the Social Insurance Institution (Zakład Ubezpieczeń Społecznych – ZUS), and is a universal and compulsory element of the pension system. Each participant born after 1948 has an individual account, into which around two-thirds (12.22 percentage points) of the participant's contributions are transferred. The funds accrued in the ZUS accounts are not invested, but they earn a theoretical return based on the rate of change of the total sum of all contributions made by all participants over a year. The pension received by participants from this pillar, therefore, is dependent on contributions, quasi-returns (indexation) and the life expectancy at the point of retirement, which is calculated in the same way for every man and woman of a particular age. Participants can retire at any age above the statutory minimum retirement age, of 60 for women and 65 for men.

The **second pillar** consisted until 2014 of open pension funds (Otwarte Fundusze Emerytalne – OFE), individually chosen by each participant. Since 2014, participants have been offered a choice to either opt to transfer part of their contribution (2.92 percentage points) to the open pension fund and the rest (4.38 percentage points) to the ZUS sub-account, or to transfer the whole amount (7.3 percentage points, or around a third of the total contribution) to the sub-account.

Open pension funds are independent legal entities that can only be created and managed by private financial institutions called general pension societies (Powszechne Towarzystwa Emerytalne – PTE), subject to approval from the Polish Financial Supervisory Body. The regulation governing the organisation and functioning of the pension funds (the 1997 Act on Organisation and Operation of Pension Funds, amended in 2013) outlines the guidelines for the investment policies of the open pension funds. Its Article 141 identifies deposit categories in which funds may invest their assets. These, among others, include: stocks, bonds, deposits, shares of companies listed on the regulated market, certificates of closed-end investment funds, and participation units. Moreover, the act imposes restrictions on PTEs' investment policies and includes provisions that enforce diversification of investment portfolios (in most cases allowing no more than 10% of funds' assets to be invested in securities issued by a single entity).

Provisions of the act also place restrictions on investment in foreign markets, namely a 30% limit on the fund's total value invested in foreign currency assets. This limit is, however, somewhat theoretical, as PTEs primarily invest in the domestic market. In 2018, 77.8% of their assets consisted of shares that were invested domestically, with only 7.2% invested in shares of companies listed on foreign markets.[3] Furthermore, PTEs cannot invest in domestic or foreign sovereign bonds.

When OFEs were created, it was anticipated that they would finance second pillar retirement benefits from their own funds but, since 2014, a mechanism called the "security slide" was introduced. As envisaged by the regulation, 10 years before the participant reaches retirement age, funds collected in the OFE are partially transferred to ZUS on a regular basis so that, at the time of retirement, all funds are managed by ZUS.

Contributions to the **third pillar** are made on a voluntary basis. The main pension programmes under this pillar include the Individual Retirement Accounts (Indywidualne Konta Emerytalne – IKE), the Individual Pension Security Accounts (Indywidualne Konta Zabezpieczeń Emerytalnych – IKZE) – with the profits made by these programmes being exempt from capital gains tax – and the Occupational Pension Programmes (Pracowniczy Program Emerytalny – PPE). Only one in twenty Poles between 20 and 69 participates in this pillar.[4] Researchers highlight four main reasons for the lack of success in the development of the voluntary accounts:

1) Low consumer awareness regarding the available products;

2) Unwillingness among consumers to increase the amount they save for retirement;

3) The high costs of the available products;

4) A lack of available funds.[4]

Ongoing reforms and proposed legislation

In 2016, the government introduced proposals for Employee Capital Plans (Pracownicze Plany Kapitałowe – PPK), within the framework of the third pillar. PPKs are designed as a private component of the retirement savings system, acting as complementary to the existing occupational pension programmes. Once they are in place, they will be compulsory from the employers' per-

3 KNF (2018), Information about pension funds activity between 31.03.2015 and 30.03.2018 (Polish)
4 Bitner M. , Bukowski M. , Pastor K. (2016), *Picking up momentum. Citizens' strategy for the development of the Polish capital market*, WiseEuropa, Warsaw (Polish).

spective (who will have to pay a contribution of at least 1.5% of the employee's salary) provided that the employees do not opt out. Employees that participate are required to make contributions of at least 2% of their salary.

The regulation is initially targeted at companies that employ more than 250 people. Insurance companies, general pension societies and investment funds will be designated to manage the funds collected. PPKs will be able to invest up to 30% of their assets in foreign markets. With some exceptions, employees will be able to withdraw their money only once they reach the age of 60. In order for the contributions not to be subject to the 19% capital gains tax, only 25% of contributions can be withdrawn immediately, with the remaining 75% withdrawn in 120 monthly payments.

In November 2018 the president has signed the bill introducing PPKs into the law. It is envisaged that the first PPKs will become operational in mid-2019.

Institutions and supervisory bodies

ZUS is the largest state institution focused on social security in Poland. It is governed by a president, who is appointed by the prime minister on the recommendation of the minister in charge of social security issues, currently the Ministry of Family, Labour and Social Policy.

In 2006, the **KNF** took over the duties of the Insurance and Pension Funds Supervision Commission (Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych – KNUiFE), and acts as a supervisory body for the pension funds market. The **Investment and Pension Funds Department** at the KNF is responsible, among other things, for:

- Supervision of the operational, financial and investment activities of pension funds, including verification of the methodology for the valuation of financial instruments that are the subject of investment fund deposits;
- Determining the weighted average of the return rate of the open pension fund;
- Examination and supervisory assessment of the general pension societies.

Governance at the ministerial level

The **Department of Social Insurance** in the **Ministry of Family, Labour and Social Policy** oversees issues related to the insurance sector. Among other things, the department is specifically responsible for outlining assumptions that dictate social insurance policies and drafting regulations focused on this policy area. Its competencies also include cooperation with the ZUS and the KNF.

1.2 Insurance sector

Basic information and regulatory framework

The law governing the investment activity of Polish insurance companies, the 2003 Act on Insurance Activities, provides the foundation for the Act on Insurance and Reinsurance Activities, which came into force in 2016. Article 276 of the latter outlines the rules for investment activities carried out by insurance companies. According to the 2016 act, the assets covering the technical provisions (i.e. provisions that should ensure full coverage of all current and future liabilities that may arise from existing insurance contracts) and the minimum capital requirement should be appropriately diversified and distributed (i.e. not excessively dependent on one type of financial instrument or one entity), so as not to expose the insurance company to excessive concentration of risk. Although the 2003 act imposes restrictions regarding the types of assets and financial instruments (Article 154) and concentration limits for a given type of financial instrument (Article 155), the provisions on the investment activity of the insurance companies included in the Act on Insurance and Reinsurance Activities contain broader guidelines and stipulate that insurance companies can only invest in assets and financial instruments where risks can be adequately identified, measured, monitored and managed, and which can be adequately addressed in an analysis of the solvency of the company. Importantly, the act also introduces more stringent regulations and information duties in regards to unit-linked life insurance.

An overview of investment activity by insurance companies shows that they predominantly invest in debt securities and equities. As of the end of 2017, insurance company assets amounted to PLN 112.67bn, of which almost 60% was invested in debt instruments.[5]

Institutions and supervisory bodies

The **KNF** executes the duties of the Insurance and Pension Funds Supervision Commission and acts as a supervisory body for the insurance market. **The Insurance Supervision Department** at the KNF is mainly responsible for the supervision of the activities of insurance and reinsurance companies and particularly for tasks such as:

- Monitoring and ensuring that insurance companies remain solvent;
- Monitoring compliance of supervised entities with legal provisions; and
- Analysis of the financial and solvency statements provided by companies.

5 KNF (2017), Report on the state of the insurance sector

The Risk Monitoring Department at the KNF supports the supervision of insurance and reinsurance companies by collecting data on their activities. It is also responsible for preparing information and statistical and financial statements about insurance and reinsurance companies and the insurance sector. Moreover, the department is responsible for the development of supervisory methods and tools based on risk analysis and, among others, identification of areas at risk through the application of analytical tools such as stress tests.

Governance at the ministerial level

The Department of Social Insurance in the **Ministry of Family, Labour and Social Policy** oversees issues related to the insurance sector (see 1.1).

1.3 Asset management

Basic information and regulatory framework

Asset management in Poland is undertaken by brokerage houses and investment fund companies (Towarzystwa Funduszy Inwestycyjnych), and as a separate service carried out by banks and other investment entities approved by the KNF.

Brokerage houses

Brokerage activity can only be conducted by organisations that have received permission from the KNF. According to the 2005 Act on Trading in Financial Instruments, asset management is one of the key competencies offered by brokerage houses that also include:

- Offering securities on the primary market;
- Conducting securities purchase and sale transactions on behalf of investors;
- Conducting transactions for the purchase and sale of securities on its own account; and
- Advisory services and brokerage in securities on foreign markets.

In order to protect consumers, a compensation system, governed by the Central Securities Depository of Poland, has been established. The scheme provides investors with compensation for the value of lost financial instruments they have accumulated in brokerage houses, up to the amount stipulated by the act if the brokerage house files for bankruptcy, or if the KNF declares that the brokerage house is incapable of fulfilling its financial commitments to consumers.

Investment fund companies

Joint-stock companies registered in Poland may seek approval from the Polish Financial Supervision Authority to become an investment fund company. Such companies act as the managing body of an investment fund. Their primary objective is to create and manage investment funds, as well as represent them to third parties. One company can simultaneously manage investment funds characterised by different investment policies and risks levels. As the investment fund company is a legal person separate from the investment fund, it ensures a high level of security.

Investment fund companies manage open investment funds, specialised investment funds and closed-end investment funds. The investment restrictions and rules are outlined in the 2004 Act on Investment Funds and the Management of Alternative Investment Funds.

Closed-end investment funds are characterised by a higher level of independence regarding the choice of investment policies compared with the open-ended investments funds. Among other things, they can invest in securities, debt, shares in limited liability companies, currencies, derivative rights and transferable futures. A fund cannot invest more than 20% of its assets in securities, debt or shares issued by any one entity. The same restrictions apply to foreign currencies. Closed-end funds can deposit their assets with national and international banks or credit institutions, but these are also subject to the 20% single-entity threshold. These restrictions do not apply to investments in securities issued or guaranteed by the State Treasury, the National Bank of Poland or OECD governments.

Open-ended investment funds can invest in securities admitted for public trading, transferable debt with a maturity of up to one year, and participation units of other investment funds. The restrictions imposed by the regulator state, among other things, that securities and money-market instruments issued by one entity may not jointly exceed 5% of the fund's assets. Similarly to closed-end investment funds, an open-ended investment fund may not invest more than 20% of the value of its assets in deposits in the same domestic bank or credit institution.

Specialised investment funds are classified as alternative investment funds. Investment restrictions outlined for the open-end investment funds also apply to these funds. However, if participants in a specialised fund are restricted to legal persons, organisational units without legal personality, or natural persons who make a one-time payment to an investment fund equivalent to €40,000 or more, the fund may apply the investment rules and restrictions specified for a closed-end investment fund.

Services provided by banks and other specialised investment entities

Banks can carry out brokerage activity via a brokerage office – a separate organisational unit that acts independently of the rest of the bank's operations. The distinction between banking and brokerage activities include a requirement to use independent communication channels for consumer services. The rules and regulations regarding the asset management services provided by the bank are also outlined in the 2005 Act on Trading in Financial Instruments.

Institutions and supervisory bodies

The **KNF** oversees operations of investment fund companies. Its **Investment and Pension Funds Department** is responsible, among other things, for:

- Granting permits and approvals, and overseeing registers and records related to the activities of investment fund companies and investment funds;
- Approving the activities of each fund, and any changes to the fund's statute (including changes in its investment policy);
- Supervision of investment fund activities;
- Evaluation and supervision of investment fund company performance.

Currently, the vice-chairman is responsible for investment fund supervision.[6]

Governance at the ministerial level

At the ministerial level, the **Financial Market Development Department** at the **Ministry of Finance** oversees asset owners and asset managers. The overarching aim of the department's activities is to maintain financial stability. In this regard, it is responsible for the regulation of individual sectors of the financial market and for cooperation with the National Bank of Poland and the Office of the Financial Supervision Commission.

6 KNF (2018), Governance structure

2. The influence of energy market politics on sustainable finance in Poland

The implementation of the regulatory frameworks that promote sustainable finance depends strongly on interactions between the financial and energy sectors. Currently, there are several issues around the politics of Poland's energy market that, despite increased recognition of the risks associated with inaction, have a strong impact on the sustainability of the financial system and are serving to delay a shift in climate and energy policy that is now expected by many private investors and experts.

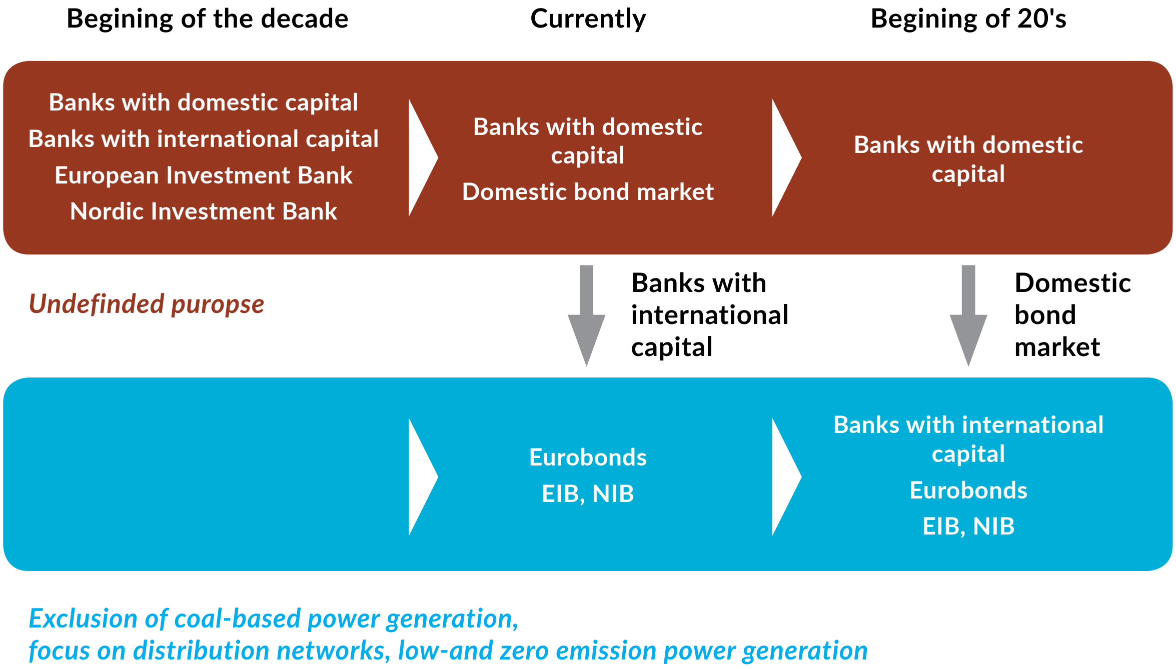
One of the biggest challenges is that Poland lacks an official energy strategy. Despite the initial plan to unveil the document by the end of 2016, the Ministry of Energy presented the draft of Polish Energy Strategy up to 2040 in November 2018. First reactions to the document suggest that it is just a starting point of a debate on the future of Poland's energy system. Furthermore, as of January 2019, the government has not submitted to the European Commission the draft of Poland's National Energy and Climate Plan, what was required by the EU regulation on the governance of the Energy Union.

Regardless of the lack of a clearly outlined and officially approved plans for the development, the government has consolidated the energy sector, which is now dominated by state-controlled companies (i.e. public companies with the state as a key shareholder). Market and regulatory forces (e.g. outcome of the negotiations with the EC regarding the capacity market which is less favourable to coal-based power plants; potential further decrease in coal power plants' competitiveness as a result of Clean Energy Package regulations, EU ETS reform resulting in the sharp increase in emission allowance prices) limit the potential for further coal investments required to keep the carbon-intensive status quo, despite government actions and its overarching control over key stakeholders.

Moreover, the dominant position of coal in power generation until 2050, as envisaged by the Ministry of Energy, is questionable from the perspective of investors. The conflict between the projects that are to be realised according to the ministry's vision and the current market situation is underscored by the unwillingness of private financial institutions to fund coal-based projects.

Large-scale divestments of fossil assets by a growing number of investors and the growing number of no-coal policies among banks and insurers are reducing the number of actors capable of financing investments in the fossil fuel-fired energy sector. With international entities only supporting distribution and low-emission power generation, it is falling to national stakeholders to sustain investment efforts related to coal-fired power generation. The associated climate risks are therefore increasingly concentrated in a small number of state-controlled companies, potentially creating a systemic problem for the Polish financial sector.

Diagram 1. Debt financing in the Polish energy sector: past, present, future



Source: The climate finance domino (Bukowski, M. et al. 2018)

Although international actors are currently leading the low-carbon transition process by 1) implementing restrictive policies to prevent further engagement in fossil-fuel investments, and 2) actively reducing the number of coal and fossil-fuel assets in their portfolios, domestic Polish banks are increasingly voicing concerns regarding the increased risks posed by conventional projects and their increased exposure to coal assets. Despite these objections, the engagement of state-controlled banks (e.g. Bank Gospodarstwa Krajowego - BGK) and funds in carbon-intensive projects remains high: the share of carbon-intensive companies in the total corporate debt of Polish banks amounts to 4%. This number is likely to increase to 15%, if banks become involved with new coal projects, which is comparable to their financing of larger and more diversified sectors such as real estate. It is unclear whether action will be taken to reduce this exposure – for example, although the government has indicated that national banks such as PKO BP or Pekao SA will be involved in the financing of the new coal-fired Ostrołęka power plant, the sources of financing for this project remain unclear.

It is important to emphasise that the pressure to address ESG risks, and especially those related to the energy sector, is different for BGK, a state-owned development bank regulated by a dedicated act, compared with other Polish state-controlled banks, such as PKO BP and Pekao SA, that are listed on the stock exchange and which investment decisions are scrutinized by shareholders and prone to market forces.

Given the challenges described above in financing the projects envisaged by the Ministry of Energy, and the risks the energy sector poses to the financial system, pension funds and, in particular, the PPK might be seen by the government as a source for such undertakings. Therefore, until there is a clear policy shift away from coal-based investments, the government is likely to oppose any regulations in regard to the investment policies of pension funds and restrictions on the use of pension savings that could limit its ability to finance the fossil fuel-based economy.

3. The current state of sustainable finance in Poland

3.1 ESG integration

Prior to the transposition of the EU directive on the disclosure of non-financial information and diversity information (2014/95/EU), Polish law addressed ESG factors only to a very limited extent. Although all public companies in Poland are required to include analysis of ESG issues in their annual reports, there has not been any policy measure aimed at funds, asset managers or asset owners specifically focused on ESG factors.

In 2017, amendments were introduced to the Accounting Act to transpose the EU directive into Polish law. They are expected to increase the use of ESG information by investors, as they will require those entities that employ more than 500 people and whose net turnover exceeds €40 million, or which have a balance sheet greater than €20 million (e.g. listed companies, banks and investment funds), to produce a non-financial report. It is expected that the regulation will cover at least 300 organisations: at the beginning of 2017, it was estimated that only about 30-40 listed companies had disclosed non-financial information. However, it is questionable whether the changes in the legislation will enable efficient and effective ESG integration by investors, due to the lack of provisions in the amended act regarding the verification of non-financial disclosures. Currently, auditors do not validate the quality of reporting and only confirm the existence of such documents.

However, the Warsaw Stock Exchange published updated exchange rules at the beginning of 2016 that could facilitate the process of ESG integration, by introducing new requirements regarding the corporate governance of listed companies.[7] Based on the guidelines, the exchange is now monitoring whether issuers comply with corporate governance rules following the ‘comply or explain’ principle. In addition, the exchange has also launched the RESPECT Index project, which since 2009 promotes implementation of ESG standards into the strategies of listed companies and has resulted in the creation of the first CSR index in Central and Eastern Europe. The project aims to assess the performance of the companies, through a regular audit of liquidity as well as compliance with the ESG criteria of the entities listed at the Warsaw Stock Exchange.[8]

7 Warsaw Stock Exchange (2016), Good Practices of Companies listed on the Warsaw Stock Exchange
8 Warsaw Stock Exchange (2010), RESPECT index

3.2 Potential political change and political issues

Despite growing interest in sustainable finance, the rising number of actions carried out by the private sector (especially international firms), and ongoing developments at the European level (such as the High-Level Expert Group report and the European Commission (EC) Action Plan on Sustainable Finance), awareness among policy makers, regulators and Polish financial institutions regarding the subject remains limited.

Since the end of 2016, when Poland became the first sovereign to issue a green bond, the topic of green bonds has dominated discussions at the governmental level on the sustainability of the financial system in Poland. Recently, the debate was reignited following Poland's second green bond, issued in February 2018; given the success of both processes, Minister of Finance Piotr Woźniak announced that the ministry intends to issue one every year.

To leverage the results achieved on the green bond market and the status of Poland as a pioneer in this regard, as well as to put these activities in a broader perspective, the Ministry of Finance organised in July 2018 a conference focused on sustainable finance. The discussion at the event revolved around three main themes: regulations and developments at the EU level (especially the EC action plan on sustainable finance); tools and mechanisms that support a transition towards a sustainable financial market; and the current state of sustainable finance in Poland.

Key points and remarks from delegates (which included government representatives, international banks, national institutions, academia and civil society) can be summarised as follows:

- The pace of action on sustainable finance at the EU level is fast, and the direction of change is irreversible. Regardless whether planned actions are implemented on time, the trend cannot be ignored and has to be addressed at all levels (ranging from regulatory institutions to individual organisations);

- Implementation of sustainable finance policies should not be regarded as a burden but, instead, such shift in the paradigm presents a wide range of business opportunities;

- Some institutions, mainly international firms such as ING and HSBC, have already implemented sustainable finance policies and are promoting the concept within their strategies at the local level. However, these are voluntary measures and are still in the early stages of development.

In addition to WiseEuropa's engagement in the dialogue led by the Ministry of Finance, a series of bilateral meetings and a workshop have been organised by the institute to promote sustainable finance and to raise awareness among key stakeholders regarding the climate risks faced by the financial sector as a result of its engagement in the energy sector.

The insights gained from these discussions, coupled with the conclusions from the conference, confirm that progress in the area of sustainable finance is welcomed by the private sector and, importantly, that the Ministry of Finance is willing to adjust and accommodate changes resulting from the paradigm shift. However, obstacles remain that prevent the process becoming mainstreamed into financial regulatory frameworks.

First, there are some concerns regarding delivery and implementation of reforms. The pace of the process is regarded as too slow, given that the government has a majority in the parliament and support from the president. Internal discussions within the government over both the shape of reforms and the management of state-controlled financial institutions may further slow progress.

Secondly, from the perspective of the private sector, the regulatory frameworks lack the required stability needed to integrate analysis of ESG factors in strategy-making processes. The short-term nature of policy-making in Poland, coupled with the relatively long-term realisation of ESG risks, do not provide sufficient incentive for the financial sector to act pre-emptively and implement available solutions. These observations are especially applicable to the actions of the Ministry of Energy, which fosters the development of the energy sector based on coal-fired generation. The preservation of the carbon-intensive status quo in the energy system, both in terms of the energy mix and market shares of energy companies, hinders actions that are aimed at the uptake of sustainable finance. Despite periodic rumours about personal shifts in the Ministry of Energy that may pave the way for policy changes, so far the situation has not changed.

Although the Ministry of Finance voices some concerns regarding the pace and extent of change at the EU level, it emphasises that a proactive approach towards sustainable finance promises to open previously untapped markets. For example, in its report on the use of proceeds from the 2016 green bond, the Ministry of Finance notes that 61% of investors were categorised as SRI/green investors.

It is clear that the debate on sustainable finance and ESG integration in Poland is still in its early stages. The topic requires further discussion not only to present the ongoing actions at the EU level but also to introduce the topic in a more structured and comprehensive manner to the public and to the representatives of the financial sector. Although Poland's hosting in late 2018 of COP24 – the latest round of UN climate talks – might provide such an opportunity, the challenges described above may limit any direct impact that the international process could have on national developments. It is much more likely that these will be driven by concrete European legislative proposals and other European Commission initiatives in the area of sustainable finance.

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References and useful links

General overview:

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This report is a result of work carried out within two research programmes conducted by WiseEuropa:

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Access to the highest quality, evidence based knowledge enables implementation of policies and organisation of public institutions in a way that maximises the well-being of society. Thus WiseEuropa has established a Public Policy and Governance Programme, with an objective to provide policymakers with the understanding of the impact of implemented policies and institutional solutions.
The Programme's framework enables us to conduct analytical work, present global research insights and establish a dialogue with private and public sector to offer solutions in the area of economic development that are tailored to the domestic context. Within the Programme we undertake research covering broad array of issues, including taxation, science and innovation, human capital, health, labour market, social security and development policy.

PUBLIC POLICY AND GOVERNANCE

Energy, Climate and Environment Programme

Poland, Europe and the world are currently facing unprecedented challenges associated with the environment and resources. Avoiding dangerous climate change, improving public health and increasing resource security requires a profound economic transition. Taking advantage of opportunities and avoiding the associated developmental traps requires in-depth evaluation of the short- and long-term impacts of environmental protection and natural resource management policies. Under the Energy, Climate and Environment Programme, we prepare comprehensive sectoral and macroeconomic analyses, focusing on the broadly defined low-emission economic transition in Poland and globally. We are active in areas such as: Polish and EU energy and climate policy, domestic resource policy, improving resource efficiency in the economy, protection of the environment and public health by limiting harmful emissions, sustainable transport policy.

ENERGY, CLIMATE AND ENVIRONMENT

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