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Green Recovery

From crisis to sustainable recovery

For Poland, the biggest recovery challenge is not associated with the disbursement process of the available EU funds, but ensuring that the projects and reforms identified by the National Recovery and Resilience Plan answer to the strategic challenges of the XXI century.

Maciej Bukowski, Paweł Leszczyński, Zofia Wetmańska

ENERGY, CLIMATE AND ENVIRONMENT

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1. Executive summary

- The COVID-19 pandemic and the climate crisis are two systemic shocks that are asymmetrically affecting various sectors and social groups. At the same time, both are revealing the weakest points of the contemporary socio-economic system. For public policy, climate crisis may even be a greater challenge than the pandemic. Mobilization of necessary resources in response to a long-term threat is much more difficult and slower than in the case of a rapidly growing and easily identifiable crisis. However, it would be a mistake to treat the COVID-19 crisis only as a short-term macroeconomic shock and not to leverage it as an opportunity to introduce reforms needed to address technological, healthcare and climate challenges of the 21st century.

- Current design of wide-spread financial support measures introduced by the Polish government carries a serious risk of ineffective allocation of resources in the economy. These measures could also significantly contribute to an increase in public debt and the costs of its servicing in the long run. From this point of view, European funds and especially the Recovery and Resilience Facility (RRF) are particularly important. They can support implementation of the national fiscal policy in a conservative manner, while avoiding the risk of a recession caused by a sharp decrease in public spending or a significant increase in taxation in 2021-2023.

- The actions envisaged by the European post-COVID-19 recovery plan should be primarily regarded as a package for the European economic sovereignty that prioritises implementation of the strategies established by the Member States before the COVID-19 pandemic. Thus, it is not surprising that the access of Member States to Recovery and Resilience Facility has been made conditional upon presentation of the National Recovery and Resilience Plans which should identify climate related and digital projects. Both areas are strategic for the European Union, but so far have been treated as secondary by the Polish public policy.

- Individual countries should allocate at least 20% of resources from RRF for digital transition purposes and 37% for climate. Other investments should be implemented in line with the “do no harm” principle – i.e. none of the investments supported by RRF may contradict environmental objectives.

- For Poland, these conditionalities may pose a big problem, as principles of sustainable development have not been effectively embedded into the process of devising national strategies, public finance sector operations and the Anti-Crisis Shield. The green and digital investments identified by the National Recovery and Resilience Plans will not correspond to the scale and pace of changes needed for Poland to achieve the binding EU climate targets for 2030, if they are only envisaged within the framework of routinely implemented long-standing programs.

- The biggest recovery challenge for Poland is not the disbursement of the available EU funds itself, but ensuring that the projects identified by the National Recovery and Resilience Plan answer to the strategic challenges of the XXI century. In this context, the coherence between the envisaged post-COVID-19 recovery actions and national reform programmes, climate and energy plans, territorial just transition plans and operational programs is crucial.

- Recommendations for policymakers:

  - **Systemic problem-solving approach:** Current reforms, including these focused on the launch of the second phase of the national Anti-Crisis Shield and disbursement of the EU funds from Recovery and Resilience Facility, must strive not only to achieve short-term economic goals, but also to strengthen the European and national economy in a systemic way.

  - **Strategic adaptation to megatrends:** It is necessary for the government to adopt the Strategy for the Transformation to a Climate Neutral Economy along with the sectoral documents that it implies. These documents should not only be internally consistent, but also define in a measurable manner the directions of the country's development at macroeconomic and sectoral levels: they should contain specific indicators and goals for designing support instruments and monitoring the progress of their implementation.

  - **Targeting investments that are needed to unlock large-scale changes in key sectors in the National Recovery and Resilience Plans**: Projects selected for National Recovery and Resilience Plans should be based on uniform selection criteria. These could be taken for example from the European Taxonomy for sustainable activities. At the same time, the process of designing Recovery Plans should take into account quantification of the extent to which implementation of Plans will contribute to the achievement of the 2030 climate targets and digital policy goals.

  - **Urgent reforms aimed at eliminating contradictions between development and recovery policies:** It is necessary to introduce regulatory changes that would enable alignment of domestic policies with the EU objectives. In particular, it is urgent to introduce green and digital criteria in the process of evaluation of eligibility of given investments for public support in the second edition of the Anti-Crisis Shield. Furthermore, measures that liberalize the regulatory environment of investments in RES, would help to fast-pace the low-carbon transition.

  - **Assessment of investment compliance with the EU Taxonomy for sustainable activities as one of project selection criteria:** This will allow to avoid the problem of "greenwashing" by clearly defining which projects will contribute to the decarbonisation of the Polish economy. The use of the Taxonomy will additionally help with the tracking of financial flows supporting the development of low-emission investments, and thus the process of accounting for the share of green investments in the European funds spending structure.

  - **Building synergies between central and local governments**: Since a significant part of public funds in Poland is disbursed through local governments, it is necessary to take into account their needs while developing the post-COVID-19 economic stimulus. Increasing the fiscal autonomy of cities and local authorities as well as developing a central mechanism (e.g. a Fund) aimed at providing access to funds for strategic investments could ensure that actions at the central and local levels become complementary.

2. COVID-19 – a temporary problem or a systemic challenge?

The COVID-19 pandemic has hit at the very foundations of the economies and lifestyles of developed countries. Administrative restrictions that were implemented overnight have substantially affected the economic activity and led to spontaneous changes in consumption patterns dictated by people's fear for their own and their family's health. In turn, this caused an unprecedented decline in GDP in almost all developed countries in the second quarter of 2020. Poland has not avoided this scenario either. However, due to the limited number of primary infections, favourable sectoral structure and effective implementation of the Anti-Crisis Shield aimed at maintaining liquidity of Polish companies, the recession over the entire year should not exceed 4%. This positions Poland among the countries least affected by the COVID-19 crisis globally (EBRD 2020). Nevertheless, such scenario may be hindered by the rising second wave of the COVID-19 pandemic, which hit Central Europe with much greater force than the spring wave. Regulatory restrictions that are being introduced since the beginning of October 2020 have significantly limited citizens mobility. This could mean that a serious slowdown may occur not only in 2020 but also in 2021. Thus, the preparation of a well-thought-out recovery plan for the economy becomes even more important.

From an economic perspective, it is worth considering the COVID-19 crisis as a shock that reveals deeper-rooted problems in the system. In particular, these are linked to the limited or absent state's preparedness to respond to a crisis in two seemingly separate areas: macroeconomic policy and structural reforms. As far as the macroeconomic policy is concerned, the Polish government decided to implement a vast (approx. 10% GDP) intervention package financed through a rapid increase of public debt. The primary goal of this instrument (the so-called Anti-Crisis Shield) was to use administrative measures to maintain the liquidity of enterprises in the event of introduction of sudden restrictions to the economic activity. The government expected this would prevent mass bankruptcies, a spike in unemployment, as well as, potentially, a long-term decline in the entire economy's productivity. Simultaneously, given the sharp drop in tax revenues, financing for the package necessitated a significant increase in public debt and introduction of limits on some expenses, primarily on the part of local governments. The implementation of costly Anti-Crisis Shield, which involved large-scale subsidies for companies and households (so-called *helicopter money programmes*), was probably inevitable as a response to COVID-19's first wave, as it was necessary to buy time for the healthcare system to implement the necessary organisational, infrastructural and equipment adjustments.

Still, it is not clear whether and on what scale the Polish economy should implement a similar instrument in response to an uncontrolled increase in infections at the turn of 2020 and 2021. Limited number of COVID-19 patients in spring 2020 did not substantially overwhelm the Polish healthcare system and thus did not emphasise the urgency in addressing its systemic problems that substantially compromise the ability to deal with large scale pandemic. As the seriousness of the situation has been neglected in last couple of months, Poland is still struggling with problems caused i.a. by the small number and advanced age of doctors and nurses, shortages of infrastructure and medical equipment, under-developed diagnostic capacity, ineffective management procedures or difficulties in performing effective testing and contact tracing of potential COVID-19 cases. Given the significant doubts regarding the country's preparedness for the epidemic's second wave, in 2021, Poland will most likely face a greater number of challenges than countries, which – like Italy – had the opportunity to learn from their own mistakes, or those that immediately undertook systematic activities aimed at long-term control of the COVID-19 challenge, such as Germany or Sweden, even if the global solutions, such as an effective vaccine, were to fail.

The insufficient preparation of the Polish health care system for the pandemic's second wave is currently a systemic risk factor that may in coming months negate the effects of public aid disbursed by institutions such as the Polish Development Fund or Bank Gospodarstwa Krajowego (Polish Development Bank, BGK). Were infections to spread in an uncontrollable manner, the state's capacity to absorb private sector's risks is likely to be exhausted. Rapid increase in public debt and subsidies for hundreds of thousands of companies and employees could have been only a short-term answer that will prove to be impossible to sustain for the next waves of the pandemic. The lack of adequate long-term measures for shielding Polish economy from the consequences of the pandemic is likely to result in number of negative side effects, such as a sizeable drop in the banking sector's profitability, persistent high or even very high inflation, or significant depreciation of the Polish currency against the euro, dollar and Swiss franc.

The COVID-19 crisis resembles other systemic shocks that reveal weak spots of the socio-economic system as a whole, such as insufficient resilience and limited adaptability of the Polish state to changing conditions. In this context, the global climate crisis can be regarded as a similar challenge, as it substantially undermines the foundations of current economic models. Similarly, to COVID-19, the climate change causes systemic tensions that present themselves i.a. as asymmetric costs and benefits for different economic sectors and social groups. For a public policy, it is probably a greater challenge than the COVID-19 pandemic. Due to a different nature and distribution of the effects of the climate crisis in time, the mobilization of resources in response to long-term threat becomes even more difficult and slower.

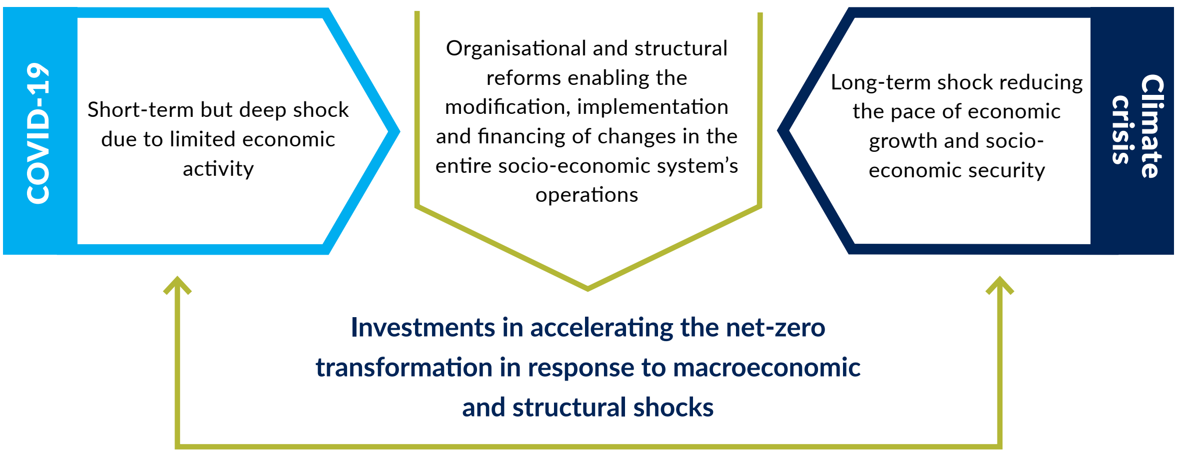
At the same time, the response to the climate crisis requires similar actions as the response to the crisis caused by the COVID-19 pandemic. It should be based on the implementation and financing of reforms that permanently affect the foundations of the functioning of key subsystems of the economy, while avoiding deceptive activities which do not eliminate the causes of the crisis. According to classical macroeconomic theory, increased public spending could be helpful in both tackling the post-COVID economic crisis, as well as supporting the transition to a low carbon economy. However, two conditions should be met 1) it is necessary to limit the root causes of the crisis and 2) investments should prioritise projects that increase productivity of the economy in the medium and long term. Maintaining an aggregated demand at a high level is not enough, especially when it is declining for reasons beyond the direct control of any political or economic actor.

The increase in public debt generated in this way in the short term may cause difficulties with its non-inflationary repayment or servicing in the future. Therefore, it is crucial to – directly or indirectly – support private sector activities from public funds, in the manner that will neither lead to erosion of the economy's production capacity, nor support companies or types of production for which demand significantly decreases or collapses due to a particular shock (COVID-19 or climate crisis). **Undirected, long-term mass financial support programmes lead to inefficient allocation of resources in the economy, and thus to a significant and permanent weakening of the economic growth, limiting the possibilities of improving living conditions for citizens. Importantly, by implementing such "helicopter-type" measures, the government forgoes the opportunity to use the available resources to build a solid foundation for the future prosperity.**

Given the above, it should not be surprising that many European institutions and non-governmental organisations began appealing to politicians to include environmental dimension in the stimulus packages. They argue that countries expending significant share of public funds should not only aim to maintain employment during the pandemic and help to overcome the economic crisis, but also increase resilience to future systemic shocks, including subsequent pandemics and the climate crisis. However, such appeals were often lacking detailed reform plans and, in many cases, repeated previous recommendations, including those agreed by the EU's leadership regarding the community's budget for 2021-2027.

In our opinion, in Polish conditions, there is an urgent need to identify and leverage synergies between economic and climate policies to address the COVID-19 crisis. **It would be a mistake to treat the COVID-19 crisis only as a short-term macroeconomic shock and not to leverage it as an opportunity to introduce reforms needed to address technological, healthcare and climate challenges of the 21st century.** In this policy brief, we formulate a concise diagnosis of the Poland's current policy towards the COVID-19 crisis and we present recommendations regarding actions that would support the fight against the short-term economic shock, whilst at the same time support the long-term decarbonisation.

Diagram 1. Pandemic crisis and climate crisis



Source: WiseEuropa

3. Green recovery – why does it make sense?

Given that the design of financial support aimed at mitigating the effects of the economic crisis caused by the COVID-19 pandemic can serve as an opportunity to create foundations for future sustainable growth, Member States' leaders agreed at the European Council summit in July 2020 to implement a comprehensive EU-wide recovery strategy. In addition to the Multiannual Financial Framework for 2021-2027, a decision was made to establish the Next Generation EU (NGEU) – special instrument dedicated to supporting recovery from the crisis. Together, these two instruments amount to EUR 1.85 trillion for the entire European Union (EC 2020a). Combined with the earlier allocation of EUR 540 billion to strengthen the social security network for employees and companies, the total value of the EU anti-crisis package reaches EUR 2.3 trillion. This amount is equivalent to approx. 2.2% of the Union's expected GDP in the next seven years. The NGEU instrument consists of seven programmes, among which the most important from the perspective of the recovery process is the Recovery and Resilience Facility (RRF). This programme will give countries access to EUR 360 billion in loans and EUR 312.5 billion in grants (Council of the EU 2020a).

It is assumed that the funds assigned under the Facility will be distributed in such a way that they reach the countries and sectors most affected by the crisis. As much as 70% of the grants under the RRF to be awarded in 2021-2022 and the remaining 30% in 2023, i.e. when restoring the European economy to the previous path of economic growth will be a priority from a macroeconomic perspective. Simultaneously, the EU leaders agreed that the recovery funds will be spent in line with the EU's long-term development goals. In particular, 30% of the NGEU funds must be spent on pro-climate and green projects, and 20% on digital ones (EC 2020b). **At the same time, member states should allocate at least 37% of funds from RRF for climate-related investments, and the remaining budget will have to be implemented in accordance with the "do no harm" principle introduced by the European Taxonomy of sustainable activities (EC 2020c). Therefore, none of the investments implemented under the RRF can infringe on the principle of respect for environmental objectives.**

Table 1 Funds available under the European Recovery Facility

European Recovery Facility	EU (EUR 18 billion)	Poland (EUR 18 billion)
Crisis facility *[including Protection for companies and employees]*	**540** *[100]*	*[11,2]*
Multiannual Financial Framework 2021-2027	**1074**	**72,2**
Next Generation EU	**750**	**TBD**
including the Recovery and Resilience Facility	672,5	57,3
Grants	312,5	23,1
Loans	360	34,2
Total	2364,3	*[at least 140.7]*

Source: WiseEuropa based on data from the European Commission and the Ministry of Funds and Regional Policy

The fact that the concept of Green and Digital Recovery holds a central position in the European Union's plans to overcome the COVID19 crisis is not an accident. A key factor in bringing these development areas to the fore in the EU's spending plans for the recovery period was an increased awareness of the continent's strong dependence on the import of key raw materials and components from Asia, the Middle East and North America and its implications for the prosperity of Europe's inhabitants and its strategic position in the world. Deficits in medical supplies in the spring of 2020 combined with a disruption of key supply chains for European industries (incl. automotive) caused key political and business actors to rethink the Union's desired development model and its position in the global economy.

The resulting discussion led to, among others, a roadmap for recovery from the COVID-19 crisis – the Recovery Plan for Europe (EC 2020d). In addition to the purely macroeconomic role of the post-crisis fiscal package, the Plan covers the need to transfer the manufacturing of critical goods to Europe and to invest in strategic value chains, while also emphasising the need to accelerate the creation of a circular economy in Europe and to reduce the EU's dependence on third parties for the production of energy and key industrial goods. **Both the Recovery and Resilience Facility, as well as a large part of the other measures comprising the NGEU[1] should be viewed as the EU's economic sovereignty package aimed at implementing strategic assumptions of the Union formulated before the crisis.**

1 The other NGEU pillars are ReactEU (EUR 47.5 billion), Horizon Europe (EUR 5 billion), Invest EU (EUR 5.6 billion), Rural Development (EUR 7.5 billion), Just Transition Fund (EUR 10 billion) and RescEU (EUR 1.9 billion).

One of these priority areas is decarbonisation of the European economy. The long-term climate strategy vision of the climate-neutral economy published at the end of 2018 ("A Clean Planet for all") lists key investment areas set with the aim of helping the EU to achieve the climate neutrality goal by 2050 (EC 2018). These include i.a. improving energy efficiency and increasing the share of renewables in the energy mix. Both areas are particularly important from the perspective of planning the post-pandemic economic recovery process. Achieving the strategic goals in the area of energy efficiency will require a rapid acceleration in the renovations of buildings in the EU to a level of 3% of the existing housing infrastructure annually. This will generate an enormous demand impulse in the European construction sector, which is particularly desirable for the recovery. A similar investment impulse is expected with the forecasted acceleration in RES growth within the European energy system (up to 32% in 2030 and at least 50% in 2050), as well as decarbonisation of industrial processes through the use of green hydrogen, CCUS or bioenergy.

Expenditure under the EU digital strategy (EC 2020e), which assumes investments in 5G, deep learning technology, digital competences or broad digital implementations at a sector level, among other areas, all have a similar strategic dimension within the context of the post-COVID-19 recovery plans. Calculations show that investments in these areas could result in 14% of cumulative GDP growth by 2030, while significantly increasing the EU's strategic independence within the scope of digital technologies (5G, AI, industry 4.0, etc.) (NASK 2020).

A drawback of making access to a significant part of NGEU funds conditional on presenting an appropriate number of "green" or "digital" projects may be the inconsistency between Europe's long-term strategic objectives and the short-term needs of an economy in crisis. From the macroeconomic perspective, a quick recovery of aggregate demand and investment certainty for business both support a fast revival from the crisis. Therefore, it is important to quickly balance the losses in private demand through appropriate increases in public spending. It is also crucial to convince consumers, private investors and the financial sector not to hold back on spending their own funds or lending them during the crisis and in its aftermath. However, investors or consumers may not be ready to include environmental or digital criteria in their spending plans on a previously unanticipated scale. **As a result, the financial streams foreseen in the Recovery Plan for Europe may reward countries and entities that were better prepared for their absorption from the strategic and operational side from the very beginning, i.e. the ones that during the past decade have already focused on building a digital and green economy. The ones that have not done so may run into a barrier, since an insufficient number of such previously prepared projects may even make it impossible for them to use all the available NGEU funds. At the same time, the Recovery Plan may encourage these countries to realign their priorities in the 2020s and align them quicker with the objectives of the Union as a whole.**

Frame 1. Green bonds as an important component in the recovery of the EU's economy

During the State of the Union speech in September 2020, the President of the European Commission Ursula von der Leyen announced that 30% of the EUR 750 billion Next Generation EU will be obtained through green bonds. This constitutes not only a breakthrough for green instruments' market, but also a clear signal from the Commission that the recovery of the EU's economy and its future growth will rely on investment projects that contribute to the achievement of the Paris Agreement goal of limiting the increase in temperature to less than 2 degrees Celsius compared to pre-industrial levels. The value of issued green bonds will reach EUR 225 billion and will equal the total value of green securities sold worldwide in 2019 (Zachmann G., 2020). Such a scale of the issuance further emphasises the importance of the ongoing work carried out at the EU level that aims to establish the European taxonomy of sustainable investments as well as the European Green Bond Standard.

If the European Commission decides to issue green bonds in line with the European Green Bond Standard, then the revenues should be invested in projects with a significant contribution to the implementation of at least one of the environmental objectives, namely:

- climate change mitigation
- climate change adaptation
- sustainable use and protection of water and marine resources
- transition to a circular economy
- pollution prevention and control
- protection and restoration of biodiversity and ecosystems

The investment projects should also be compliant with the technical criteria outlined by the Taxonomy and would need to comply with the "do no harm" principle i.e. when contributing to one of the environmental objectives they cannot negatively affect the others. Within this context, the effective absorption of the EU funds may be ever more dependent on the efficient inclusion of the EU taxonomy of sustainable activities in the public finance reporting procedures.

Source: WiseEuropa based on data from the European Commission

4. Is Poland implementing a Green Recovery?

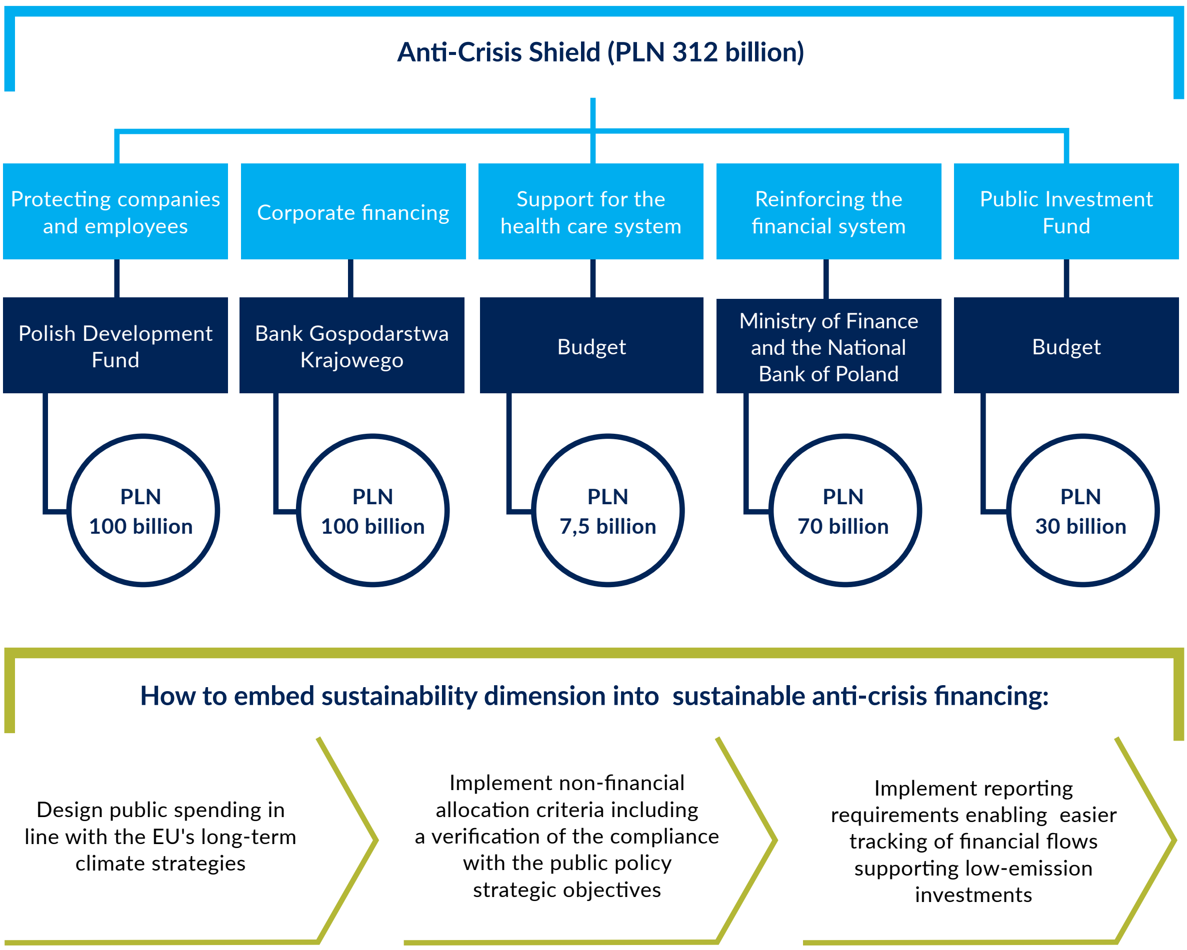
In March 2020, the Polish government announced the launch of the "Anti-Crisis Shield" – a PLN 312 billion package. The main institutional vehicles for its implementation are state's budget, the Polish Development Fund and the COVID-19 Counteracting Fund administered by the Prime Minister and operated by the Polish Development Bank . The main goal of the Shield has been to protect enterprises and employees from the short-term impacts of administrative restrictions introduced to fight the pandemic. It is supposed to support companies in maintaining liquidity through subsidies and low-interest loans, as well as to reduce the risk of mass terminations of loan agreements by banks and to uphold private demand thanks to para-benefits for people remaining unemployed during the most stringent restrictions. Simultaneously, the Shield was designed to support the aggregated demand through keeping public spending at the current level, in particular public investments and transfers to households. This was expected to minimise the recession over the entire year through a quick recovery of production after the removal of administrative restrictions on economic activities. These goals have been largely, although not fully, achieved at the cost of a substantial increase in public debt amounting to 10% of GDP. The increase in debt applied mainly to state institutions, as at the time of the epidemic many local government units – cities in particular –were bound by the expenditure rule, which forced them to significantly lower expenses and raise fees for public transport or utilities. Even though the central government's greater fiscal capacity has been partially used to assist budgets of local governments, in the form of the Local Investment Fund financed from the COVID-19 Fund, this has not prevented many cities from announcing significant cuts to their investment plans for 2020-2022.

From a macroeconomic perspective, the rapid rise of public debt can affect the financial markets' perception of Poland's debt rating. Moreover, it can lead to a jump in inflation, substantially weaken the Polish currency and affect the country's attractiveness for investors, as well as contribute to a slowdown in economic growth due to the delay in the necessary reallocation of resources in the economy. In order to prevent the increase in bond's interest rate in the short term, the Financial Shield was financed through an intervention of the central bank, which in spring of 2020 has become an indirect buyer of Polish sovereign debt. However, such approach will prove to be unsustainable. From this perspective, a key focus should be placed on building a credible public debt repayment plan in the post-crisis period. Although, some solutions can be found in the design of the Financial Shield, such as austerity programmes in the public sector envisaging lay-offs in administration, they will prove to be insufficient. This is why the government has started a discussion with social partners regarding possible increase in taxes and social-contributions.

Given that the rapid increase in COVID-19 cases during the second wave of pandemic is likely to result in another lockdown of the economy and thus can lead to an increase in public debt, the pressure for at least moderate fiscal consolidation will be significant in the coming years. It will be even bigger if the government was to decide to expand the *helicopter money* programmes. From this point of view, European funds provided within the framework of the Recovery and

Resilience Facility should be considered of particular importance for Poland. They can allow for maintaining a conservative approach towards domestic fiscal policy, while helping to avoid the risk of a recession caused by implementation of the sudden restrictions to public spending or a significant increase in taxation in 2021-2023. Importantly, the fiscal cost of European funds is distributed over all Member States and their intended financing is to be repaid within the thirty-year horizon. However, Poland's readiness to absorb these funds seems to be lower than in the previous two years. There are three main reasons for this. First of all, Polish local governments are facing fiscal problems, as many of them have approached the legally binding debt ceiling and it remains unclear whether the central government will extend the state aid in the form of the Local Initiative Fund to 2021-2022. Secondly, the issue of excessive debt may also affect the central government, in particular if anti-pandemic measures were to fail and the government is forced to extend the horizontal Anti-Crisis Shield instruments to the autumn-winter period. **Lastly, the access to the funds allocated to Poland from the Recovery and Resilience Facility will be conditional upon presentation of the plans for implementation of a large number of green and digital projects. These investments, however, have been so far considered by the Polish public policy to be of secondary importance, at both the central and local levels.**

Diagram 2. Structure of the Anti-Crisis Shield



Source: WiseEuropa based on data from the Ministry of Development

The Anti-Crisis Shield can serve as a good example, as due to its design, solely economic criteria are being considered when providing the access to public funds. There are no additional clauses requiring that at least a part of the obtained support has to be spent on goals consistent with the principles of sustainable development or enabling digital transformation. Such approach was understandable only in relation to SMEs benefiting from the first two Shield's pillars - Protection of jobs and employees and Financing of entrepreneurs. The main objective of both instruments was to support companies at risk of bankruptcy in maintaining liquidity, when they are unable to rely on bank financing. **However, in the case of larger enterprises receiving aid amounting to hundreds of millions or even billions of PLN, the lack of non-financial criteria is decidedly less justified. These companies' creditworthiness and organisational advancement are many times greater than in the case of SMEs, and their use of public support should be conditional on their contribution to key public policy objectives: such as increasing energy efficiency, reducing greenhouse gas emissions, improving productivity through digitising management processes or automation of manufacturing process.**

Diagram 3. European models of economic recovery after the pandemic

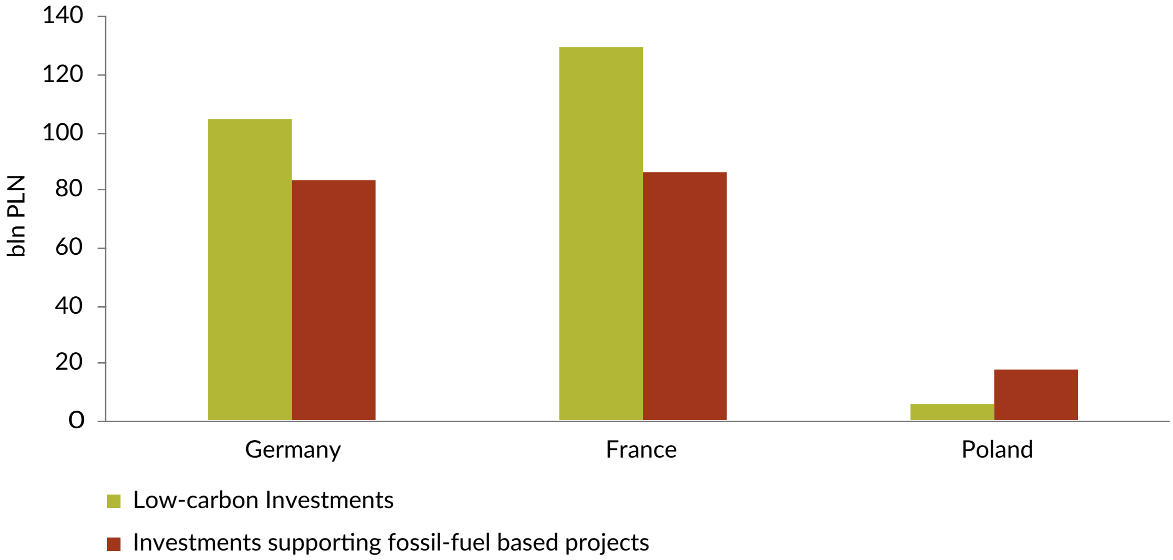
"Strategic" green recovery: e.g. Germany	"Fragmentary" green recovery: e.g. France	"Chaotic" recovery: e.g. Poland
Almost 40% of funds from the stimulus package amounting to EUR 130 billion are earmarked for a green recovery - "the largest green stimulus package in the world"	30% of a EUR 100 billion package allocated to an ecological transformation	Lack of clearly defined and quantified targets and objectives
Investments in innovative industries (green hydrogen, EV, zero-emission power)	Four defined areas: building renovation, transport, transformation of agriculture and the energy sector	No clear criteria for resource allocation and selection procedures of green projects
Almost EUR 20 billion will be allocated to the development of low-emission transport (including, in particular, public transport and electromobility)	Support given to the aviaition and automotive sector without clear environmental guidelines	Risk of ineffective absorbtion of availalable resources

Source: WiseEuropa based on data from the International Institute for Sustainable Development

The only part of the Anti-Crisis Shield that accounted for the challenges of energy transformation and environmental protection was the fifth pillar (Public Investments), which was addressed to the public sector. However, even in this case, no specific procedures were introduced aimed at verifying compliance of the incurred outlays with, for example, the European Taxonomy for sustainable activities or national climate strategies, such as the Strategy for Transformation to a Climate Neural Economy by 2050, Poland's Energy Policy by 2040, or the National Energy and Climate Plan by 2030. Neither does the Shield include reporting and disclosure requirements for non-financial information on the progress in implementation of sustainable development or digital economy priorities by the public sector. This approach differs between Poland and other countries such as Germany or France, whose programmes aim to allocate a significant part of funds to low-emission objectives during the crisis and immediately afterwards. In this manner these countries are preparing to take advantage of the COVID-19 pandemic as an opportunity to strengthen their economies' in the long term.

No direct consideration of the climate and digital dimensions in the Polish Anti-Crisis Shield may become problematic as early as in the second half of 2021, when the first tranche of funds from the Recovery and Resilience Facility should be made available to the Member States. These funds can be used not only for outlays incurred after the date they are made available, but also to cover the costs of battling the crisis in 2020-2021. The access to them will be provided if a given country meets the condition of using 37% of the allocated European funds for climate purposes to overcome the recession and build new foundations for sustainable development. Due to the lack of implementation of the principles of sustainable development not only in the Anti-Crisis Shield, but also in the entire system of strategic planning and reporting process associated with the public finance sector, Poland will probably try to document that some funds routinely spent during the crisis were "green". However, this approach is associated with serious drawbacks, such as the small scale and fragmented nature of the interventions undertaken, and thus it does not ensure a clear link between the planned projects and the EU's 2030 climate goals.

Chart 1. **Estimated volume of public investments in the energy sector implemented in response to the pandemic-induced economic crisis in Germany, France and Poland*.**



Source: WiseEuropa based on data from the Energy Policy Tracker[2]

**Data for Poland is estimated, as there is no publicly available information on the type of investments supported by the Anti-Crisis Shield.*

This problem becomes more severe when measures foreseen in the entire new EU financial perspective covering the next seven years are being considered. In this period, not only will it be necessary to commit at least 30% of the allocated funds (from a total amount of over EUR 40 billion) on climate goals and 20% on digital goals, but simultaneously to make profound, structural modifications leading to an unprecedented (when compared to the last 30 years) reduction of greenhouse gas emissions, air quality improvements, deep retrofits and introduction of renewable energy sources to the energy mix. **Funds made available to Poland not only under the Recovery and Resilience Facility (EUR 57 billion), but also as part of the Multiannual Financial Framework (EUR 72.2 billion), may significantly facilitate said transformations, but this does require the Polish administration, industry and citizens to bring forth specific schemes regarding their plans for building green and digital economy in a scale comparable to the EU countries most advanced in this regard.**

This, however, requires fast-tracking of the strategic approach (incl. presentation by the government of a long-term strategy for the Transformation to a Climate Neutral Economy and preparation of the updated version of the National Energy and Climate Plan in a manner consistent with EU objectives, as well as of other related documents, like the long-term building renovation strategy) and ensuring that the activities envisaged by them are being implemented in an effective and efficient manner. Strategies must consider how to orchestrate the functioning of the private and public sector in such a way that they are able to submit on time a sufficiently large number of properly structured (focusing on climate and digital transformation) investment projects. From the operational side, the first and most necessary step is the preparation and adoption by the government of the National Recovery and Resilience Plan for the years 2021-2023.

2 https://www.energypolicytracker.org/

5. What kind of a National Recovery and Resilience Plan for Poland?

To benefit from the Recovery and Resilience Facility in 2021-2023, Member States must by April 30th, 2021 prepare a specific document referred to as a National Recovery and Resilience Plan (NRRP). The European Commission will assess them within two months of their delivery, with the most important evaluation criteria being as follows:

1. the extent to which projects included in the NRRP implement the country-specific recommendations from the Commission (European Semester Recommendations),

2. the manner in which the planned initiatives will contribute to higher employment, building economic growth potential and socio-economic resilience after the crisis,

3. the scope within which NRRP projects will conform with the criterion of accelerating the EU's energy and climate transformation.

During the assessment, the Commission should obtain the Economic and Financial Committee's opinion, which will determine by consensus the extent to which the plan fulfils the required goals. Following a positive evaluation, the Commission shall request that the Council approves, by way of a qualified majority, the implementing act, which must be implemented no later than four weeks after the vote. Member States will have the option to review each other's plans and, in the event a country considers that one of them seriously deviates from the agreed objectives, it may request that the matter be discussed at the nearest Council meeting. In principle, the funding approval process should not exceed three months from the moment the Commission requests an opinion from the Economic and Financial Committee. It is yet to be seen whether this timeline will prove realistic. Over the next few years, the NRRPs will be subjected to a comprehensive review and, if necessary, modified. Furthermore, investments foreseen in the National Recovery and Resilience Plans are to be implemented by 2026 at the latest (EC 2020f).

Diagram 4. **Schedule for developing National Recovery and Resilience Plans**

Septmeber 2020:	The European Commission has presented guidelines for NRRP
by the 30th of April 2021:	Countries present their National Recovery Plans
2 months since the presentation of the National Recovery and Resilience Plans	Within this timeframe, the EC is assessing the Plans and has to obtain the opinion of the Economic and Financial Committee.
After Commission's approval	The European Commission requests the Council to approve the Commission's assessment - the process cannot last longer than 4 weeks. The approval of the Council is the basis for starting the withdrawal process
2022	National Recovery Plans will be subjected to a comprehensive review in 2022 and, if needed, will be adjusted prior to the final allocation of funds for 2023.

Source: WiseEuropa based on data from the European Commission

The procedure of preparation of the National Recovery and Resilience Plan and its assessment criteria are of significant importance for Poland. First and foremost, they imply that activities included in the Plan must correspond to the recommendations of the European Semester for Poland (Council of the European Union, 2020b), while, at the same time, need to align with more general, strategic goals for Europe as a whole. Specifically, that means:

1. ensuring the Plan's significant contribution to achieving macroeconomic and systemic stability, as well as the Polish economy's resilience,

2. improving the domestic labour market's efficiency and cohesion,

3. initiating rapid changes within the digital and climate transformation

4. significantly improving the standards of the legislative process and the rule of law.

As of early November 2020, the details of the Polish NRRP are unknown – fragmentary information provided by the Ministry of Development Funds and Regional Policy does not show to what extent it will focus on the issues specified in the European Semester's recommendation for Poland. In particular, the information available to public does not specify whether the future NRRP will comply with the recommendations on macroeconomic stability, legislative standards and the rule of law.

There is a considerable risk that the Plan will not be fully aligned not just with the macroeconomic assumptions of the European Semester, but also with the EU's long-term climate and digital strategies. The government declares that care will be taken to maintain public debt below excessive levels and to develop the NRRP to include a number of activities in the digital, human capital and low-emission transformation domains. On the other hand, **it will remain a great challenge at an organisational and planning level to ensure the coherence of those planned activities with other national reform programmes, energy and climate plans, territorial just transition plans, partnership agreements and operational programmes negotiated in parallel, while aligning said activities directly with European goals in these areas.**

Table 2. Compliance of the National Recovery and Resilience Plan with European Semester Recommendations

<table>
<tr><th></th><th>European Semester Recommendations (1)</th><th>Disclosed areas of the Polish NRRP (2)</th><th>Compliance assessment between (1) and (2)</th></tr>
<tr><td>1</td><td>In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Improve resilience, accessibility and effectiveness of the health system, including by providing sufficient resources and accelerating the deployment of e-health services.</td><td rowspan="4">Resilient economy, an area focusing primarily on the digital domain and technological innovation, as well as reskilling and training programmes.

Resilient society, which mainly includes projects in the education, labour market and health care domains.

Resilient environment, an investment area focusing on the low-carbon transformation of the Polish economy. Envisaged projects include inter alia investments in reduction of GHG, energy efficiency in buildings, energy poverty as well as promoting renewable energy sources and the circular economy.

Resilient state, an area focusing on initiatives supporting the development of new technologies and the digital transformation of public services, as well as infrastructural projects.</td><td>So far, there is no explicit reference to the problem of macroeconomic stability in the NRRP. However, there are some, although limited, mentions of systemic resilience with regards to the health care sector.</td></tr>
<tr><td>2</td><td>Mitigate the employment impact of the crisis notably by enhancing flexible and short-time working arrangements. Better target social benefits and ensure access to those in need. Improve digital skills. Further promote the digital transformation of companies and public administration.</td><td>The actions of the government primarily focus on human capital and education, as well as aim to improve digital literacy skills. Governmental plans also envisage low-carbon and digital transformations of enterprises and public institutions. However, the transition towards sustainable economy presented in plans lacks strong links to the quantitative targets in the area of climate, energy and digital economy.</td></tr>
<tr><td>3</td><td>Continue efforts to secure access to finance and liquidity for companies. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on digital infrastructure, clean and efficient production and use of energy, and sustainable transport, contributing to a progressive decarbonisation of the economy, including in the coal regions.</td><td>Although the government envisages investments that support low-carbon transformation, their effective implementation might however be impeded by lack of strategic approach towards their implementation. Planned projects might not contribute to significant extent to the achievement of climate targets within the given timeframe. Thus, there is a high risks that the impact of these investments will not meet the demands of the European objectives set for 2030.</td></tr>
<tr><td>4</td><td>Enhance the investment climate, in particular by safeguarding judicial independence. Ensure effective public consultations and involvement of social partners in the policy-making process.</td><td>This dimension is absent from the government's announcements regarding the NRRP.</td></tr>
</table>

Source: WiseEuropa based on European Commission's guidelines and data from the Ministry of Economic Development, Labour and Technology

The risks are associated with four key issues. First of all, implementation of the Anti-Crisis Shield in the autumn/winter pandemic wave carries a serious threat, as the scale of expenditure might be substantial, but as it was during the spring, funds could be disbursed in a way unrelated to the objectives of the Recovery and Resilience Facility and lack non-financial selection criteria. As a result, partial refinancing of the national facility from pan-European funds, which is important from the macroeconomic perspective, may prove problematic. In such a situation, in the 2021-2023 period, Poland may need to simultaneously consolidate its own public finances and disburse significant EU structural funds to avoid them going unused.

Secondly, until now the government has not officially adopted a set of key strategic documents specifying in a quantitative manner Poland's climate, energy and digital transformation goals for 2030, 2040 and 2050. Even though the macroeconomic objectives are described in the Convergence Programmes, due to the COVID-19 epidemic, the available documents have already become obsolete, meaning that the scope of reforms adapting Polish public finances to the costs of Anti-Crisis Shields is still unknown. Meanwhile, from the environmental perspective, the main issue is the delay in adoption of the long-term climate strategy, a document which presents a clear pathway towards climate neutral economy in next three decades. The government has no up-to-date sectoral strategies for buildings, transport, energy, industry and agriculture, which would ensure the transposition of the 2030 European climate agenda's objectives to the national level and, simultaneously, support the achievement of the quantified sectoral targets with appropriate tools. It is true that some of these documents have mostly been developed, but they either have not been officially adopted by the government (buildings, energy), or are not fully aligned with EU objectives (energy, transport), or do not incorporate climate and energy targets in a manner that would allow their effective operationalisation (transport, agriculture, industry). **This poses a major risk that the National Recovery and Resilience Plan's projects focusing on net-zero investments (like renewable energy sources, energy storage technologies, energy efficiency, or low-emission transport and industry) won't match the scale and pace necessary for implementation of the binding climate targets for 2030. It could result in Poland not using its NRRP as a leverage to expedite the low-carbon transformation of the economy.**

Thirdly, the structural weakness of Polish development policy in a form of passive approach to modernisation usually translates to prolongation of the status quo, regardless of possible benefits from the transformation. As a result, unlike the European Commission and many Western European countries, Poland's economic policy does not treat strategic goals as an effective instrument needed as a guidance for the business world to formulate future investment plans. For many years, Poland has been questioning the increasing stringency of greenhouse gas emission reduction targets (recently to 55% for 2030), without understanding that this way it introduces an unstable business and regulatory environment as the private sector lacks a clear market signal indicating the desired direction for investments in industry, transport, buildings and the energy sector over several years. Domestic policy is, in this respect, contradictory to the provisions of the EU's Multiannual Financial Framework, which supports companies in achieving the EU's strategic goals wherever their achievement might prove to be more difficult without the public aid for economic reasons. This inefficiency of the Polish system can be seen in both the declarative layer (verbal support for heavy industry), as well as in practice (financing from national funds coal projects in the energy sector or maintaining low-efficiency capacities in mining sector). **Poland is thus making a repetitive mistake within the framework of the economic policy - significant**

financial costs are incurred without satisfactory long-term goals being achieved. Maintaining the current approach supports large interest groups, for which actual change is difficult or simply impossible. Therefore, access to funds of unprecedented size under the Recovery and Resilience Facility creates a great temptation of double financing - on the one hand, support is given for the transformation of some companies with European funds, while on the other hand, the status quo is maintained in others through national funds. This may lead to an increase in the number of costly "zombie sectors" with structural problems, requiring continued public support, delaying real macroeconomic improvement not only in terms of greenhouse gas emissions, but also in labour productivity, energy efficiency and air quality.

Lastly, the process of designing the Polish NRRP may prove to be flawed. The entire development process is coordinated at the central level by the Ministry of Development Funds and Regional Policy, which collects proposals from a wide group of entities that include both central and local government institutions, and subsequently examines their compliance with the objectives of the NRRP and thematic criteria. The main tool for organising and ensuring coherence of the NRRP is the central Road Map announced by the government, which is used to prepare its thematic scope, verify the submitted projects in terms of socio-economic objectives and make their final selection. Therefore, the entire model is based on the idea of coordinated bottom-up aggregation, in which 1198 projects were selected out of 2500 submitted, with 557 prepared by local authorities, and 641 by ministries (Ministry of Development Funds and Regional Policy 2020). **Such approach carries a risk, that the end-product will focus on those investments that will be the easiest to implement for the submitting entities, as it promotes initiatives that have already been planned for a long time by the public sector. This puts NRRP at risk of being transformed not so much into a development plan, but rather into a part of the institutional status quo ante. Since for many years the practice has been to implement programmes that are at best loosely related to the medium and long-term strategic objectives of the European Union, there is a serious risk of funds from the Recovery and Resilience Facility being spent in a manner misaligned with the country's actual needs.**

This does not mean that the maturity of projects should not constitute an important criterion in selecting projects designated for the National Recovery and Resilience Plan. It cannot, however, be the only criterion. From a strictly macroeconomic perspective, projects that are "shovel-ready" carry with them the greatest actual potential for a rapid economic recovery. Simultaneously, the increase of Poland's economic competitiveness after the crisis will be inextricably linked with its ability to absorb new technologies and to implement a creative imitation of the most promising technological, business and regulatory solutions. **For Central and Eastern European economies, less advanced in these fields, this must entail going beyond the simple and routine "bottom up" aggregation of ideas by promoting projects with ambitious modernisation agenda in the environmental and digital domains.** At the same time, it is essential to develop aligned regulatory and institutional frameworks (e.g. to deregulate the onshore wind energy projects or to implement higher efficiency and digital standards for newly constructed and renovated public buildings). **For Poland, the biggest recovery challenge is not associated with the disbursement process of the available EU funds, but ensuring that the projects identified by the National Recovery and Resilience Plan answer to the strategic challenges of the XXI century.**

6. Recommendations

1. Systemic problem-solving approach

The COVID-19 pandemic has demonstrated that institutional efficiency, macroeconomic stability and ability to ensure quick, consistent and cooperative responses of different stakeholder groups, play a key role in avoiding a humanitarian crisis. Pandemic has exposed the weakest areas of the Polish socio-political system, offering important lessons not only in the context of short-term challenges, such as the economic crisis caused by the COVID-19, but also long-term ones, such as climate change or digital transformation of the global economy. Therefore, all currently undertaken reforms, including these needed for launch of the second phase of the national Anti-Crisis Shield and the disbursement of the funds under RRF need to pursue not only short-term economic objectives, but also a systemic reinforcement of the European and national economy. In Poland's case, this means treating them as a unique opportunity to balance economic, environmental and social developmental objectives – i.e. opportunity to actively engage in the ongoing paradigm shift branded as European Green Deal that is a result of both the COVID-19 and climate crises.

2. Strategic adaptation to megatrends

Poland's development policy shows a significant weakness in its delayed adaptation of national strategic plans to global megatrends. Often they play only a secondary role in shaping the national economic policy. While Poland does implement a number of activities nominally aimed at reducing greenhouse gas emissions and ensuring the digital transformation of administrative processes and economic activity, and the stability of its economy compares favourably to other OECD countries, the implemented actions are scattered, uncoordinated and enacted inconsistently, without clearly defined quantitative objectives. As Poland is preparing for the disbursement of funds from the second Anti-Crisis Shield and the European Recovery and Resilience Facility, it is crucial that the government not only adopts, but also actually implements the long-term climate strategy along with the implied sectoral documents for the energy (Poland's Energy Policy by 2040), buildings (Long-term Building Renovation Strategy) and transport (Transport Development Strategy) sectors, as well as for just transition of carbon-intensive regions (Territorial Just Transition Plans). Just like the digital transformation strategies that have already been implemented, these documents should not only be internally coherent, but also define directions for the country's development at the macroeconomic and sectoral level. Importantly, they should include specific indicators that would help the government to design tools and monitor their implementation. The provisions included in the strategic documents need to be reflected in the implementation of all public support programmes designed as a result of the COVID-19 crisis (including the second phase of the Anti-Crisis Shield), as well as the EU Multiannual Financial Framework and the Recovery and Resilience Facility.

3. Targeting investments that are needed to unlock large-scale changes in key sectors in the National Recovery and Resilience Plans

A visible weakness of many past operational programmes financed from the EU funds was their insufficient correlation with specific and measurable development goals, e.g. within the scope of reducing greenhouse gas emissions or creating jobs that offer value added for economy's productivity. Given that as much as 30% of the funds from the new financial perspective is to be spent on green transformation and 20% on digital transformation, this approach carries a serious risk of significant funds being spent without achieving the strategic goals including in the areas of greenhouse gas emissions reduction or increased energy efficiency at a scale that would put Poland on the path to a net-zero economy in 2050. For this reason, project selection process under the National Recovery and Resilience Plan should be based on set of uniform criteria derived, for example, from the European Taxonomy for sustainable activities. At the same time, the Plan should quantify the scope in which its implementation will contribute to Poland's achievement of 2030 targets for greenhouse gas emission cuts, energy efficiency, share of RES in the energy mix or the construction of high-speed Internet infrastructure, foundations of a digital society and industry 4.0.

4. Urgent reforms aimed at eliminating contradictions between development and recovery policies

Both the 2050 climate neutrality target and the interim 2030 emissions reduction target, which is likely to be raised from 40% to 55% in coming months, will necessitate a significant improvement in the structural efficiency of spending national and European funds. This requires the introduction of a number of regulatory changes that would facilitate alignment of domestic policies with EU objectives. This in particular calls for: an urgent inclusion of green and digital criteria in the Anti-Crisis Shield for granting public support in the second phase of the COVID-19 pandemic; regulatory changes that would unlock investments in onshore wind farms; competitive regulatory and infrastructural environment for offshore wind energy; a gradual increase in deep buildings' retrofits to approx. 3% annually over the next several years; incentives aimed at developing pilot-stage carbon neutral industrial technologies (CCUS, hydrogen), as well as systemic support for the circular economy. The necessary scale-up of green investments is indicated not only in the recommendations of the European Semester, but also in the recently presented by the European Commission assessment of the Polish National Energy and Climate Plan (EC 2020g).

5. Compliance assessment with the Taxonomy as one of project selection criteria

Given that at least 37% of funds allocated to Poland from the Recovery and Resilience Facility has to support low-emission investments and the remainder would need to comply with the "Do no harm" principle and cannot contradict any of the environmental objectives, it is necessary to use the European taxonomy for sustainable activities in the project selection process carried out for the National Recovery and Resilience Plan. This way it would be possible to avoid the "green-washing" problem as the Taxonomy offers a clear definition of projects that could contribute to the decarbonisation of the Polish economy by 2050, and help to achieve the 2030 climate targets. In addition, such early verification of projects will facilitate the process of tracking climate finance and thus it will make it easier to identify the share of green investments in the EU funds spending structure.

6. Building synergies between central and local governments

Since a significant part of public funds in Poland is disbursed through local governments, their active participation is necessary not only for the success of the post-COVID-19 recovery, but also for achievement of the climate targets and objectives of the digital transformation. At the same time, local governments felt the financial consequences of the COVID-19 crisis particularly hard, both on the income and expenditure side. Within the perspective of the coming decade this may be prove to hinder Poland's chances of achieving strategic goals in the climate (especially transport and buildings) and digital (high-speed internet, building digital competences) spheres. Thus it will prove to be necessary to consider local governments' needs when drafting reforms concerning the post-COVID-19 responses of the public finance sector. It is thus necessary to either increase the fiscal autonomy of municipal and regional governments (on the revenue and expenditure sides, e.g. by transferring income from Personal Income Taxes from a given area to local budgets, through the elimination of the regional solidarity tax or targeted support from the central budget) or to present a central mechanism (Fund) that would support local governments' budgets in the implementation of projects aimed at decarbonising public transport, increasing the energy efficiency of buildings (including multi-family buildings, schools and hospitals), as well as ensuring a digital transformation of public administration and services (including health care and education).

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ENERGY, CLIMATE AND ENVIRONMENT

Other publications:

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