



# World Bank – Poland Partnership Program Snapshot

March 2011

## POLITICAL DEVELOPMENTS

Prime Minister Donald Tusk (Civic Platform, PO) leads a stable and popular majority government, formed after elections in late 2007 by PO and the Polish Peasant's Party (PSL). Recent opinion polls show that PO's support is around 50 percent. In July 2010, after the death of President Lech Kaczynski (Law and Justice Party, PIS) in a tragic plane crash near Smolensk, Bronislaw Komorowski (PO) was elected the new president. The election victory leaves PO in power until the parliamentary elections in October 2011.

On July 1, 2011, Poland will hold the Presidency in the Council of the European Union. The exact plans for the Presidency will be announced in June 2011. General priorities include the Internal Market, Relations with the East, External Energy Policy, Common Security and Defense Policy, the EU 2014-19 Financial Perspectives, and Intellectual Capital.

## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

### Growth and External Sector

Poland has shown remarkable resilience to the global financial crisis. In the decade leading up to the crisis, Poland's increasing integration with Europe had brought about strong economic expansion and rapid convergence to European Union (EU) income levels. As the crisis broke out, this integration made Poland vulnerable to the collapse in regional capital, trade, and labor flows. Poland's companies, workers, and households have, however, weathered well the impact of the global financial crisis. In 2009, Poland became a high-income country with GNI of \$12,260.

In 2009, Poland was the only country in the EU to avoid a decline in economic activity. Poland's economy grew by 1.7 percent, while the EU declined by 4.2 percent and the EU10 region by 3.5 percent. Poland's economic slowdown was muted for a number of reasons: (i) the relatively large domestic economy and limited exposure to the decline in world trade; (ii) the flexible exchange rate regime; (iii) limited vulnerabilities in Poland's banking system due to slower credit growth than in other countries of Central and Eastern Europe; and (iv) the Government's appropriate policy responses during the crisis.

Poland remained one of the fastest growing EU countries in 2010. In 2010, real GDP expanded by 3.8 percent in 2010, the fourth highest rate in the EU. While growth in 2009 was mainly due to the positive contribution from net exports, growth in 2010 was driven by domestic factors. Growing domestic demand was fuelled by rebuilding of stocks and private consumption, and supported by the overall resilience of the labor market and reviving bank credit expansion to households. Private investment remained weak, reflecting low capacity utilization, uncertainty about economic developments in the euro area and a severe and snowy winter, followed by floods and heat waves in summer. The decline in private investment was largely compensated by a double-digit expansion in public investment, which constituted about 30 percent of total investment. Public investment was stimulated largely by EU funds, including preparations for the upcoming European Soccer Championships in 2012, in addition to the reconstruction in areas affected by the severe floods in the spring. Inflation exceeded by 0.1 percentage points in January and February 2011 for the first time since September 2009 the upper limit of the National Bank of Poland's (NBP) tolerance band of 1.5 percent to 3.5 percent. The increase resulted from the rise in international commodity prices and the hike in the VAT rate by one percentage point. The NBP expects inflation to drop below the 3.5 percent upper threshold towards the end of the year.

Growth is expected to stabilize at around 4 percent over the next few years. The recovery is expected to be driven by improving global conditions, investments supported through EU funds, improved corporate profitability, revived credit growth, and consumption growth, on the back of further reductions in unemployment. These factors are set to compensate for the impact of the fiscal consolidation measures, the end of the restocking cycle, and a declining contribution from net exports. With domestic demand gaining strength, inflation is expected to increase moderately from 2.6 percent in 2010 to 3.3 percent in 2011 and 2012. The external current account deficit is expected to remain at a moderate level of less than 4 percent of GDP, adequately financed by FDI inflows and EU funding.

## Fiscal Sector Performance

Fiscal consolidation is among Poland's main economic policy challenges. Prior to and during the crisis, Poland adopted fiscal relaxation measures of about 2 percent of GDP, the largest stimulus among the EU10 countries. As a result, the general government deficit doubled to 7.2 percent of GDP (2009) from 3.6 percent of GDP (2008). In 2010, fiscal policy continued to support the recovery, with the general government deficit estimated to have increased further to 7.9 percent of GDP. Public debt according to ESA95 (Eurostat) methodology is estimated to have increased from 50.9 percent of GDP in 2009 to 55.6 percent of GDP in 2010.

The Government has started fiscal consolidation in 2011. The fiscal deficit is set to decline to 5.3 percent of GDP in 2011, and to some 3.2 percent of GDP in 2012. This would bring Poland close to the fiscal deficit threshold of 3 percent of GDP of the Stability and Growth Pact. Poland expects the EU to agree in June 2011 that a reduction in the fiscal deficit to less than 3.5 percent of GDP will be sufficient to abrogate its excessive deficit procedure in light of Poland's second pillar pension reforms.

The reduction in the fiscal deficit reflects three factors. First, fiscal policy measures include a nominal freeze of the wage bill, a limit on discretionary expenditure growth to one percent over inflation, lower funeral benefits, and phasing-out of early retirement schemes. Tax measures include a VAT increase by 1 percentage point, selected tightening of VAT reimbursement, selected increases in excises, and improved tax administration for lawyers and doctors. Second, the Government is planning to reduce the contribution rate to private Open Pension Funds (OPFs) from 7.3 percent to 2.3 percent of gross wages, and to shift the 5 percent of gross wages into the notional individual accounts of the state pension system. This measure, if implemented from May 2011 onwards, would reduce the fiscal deficit by about 1.2 percent of GDP by 2012, although it leads to higher implicit pension liabilities in the long run. Third, the cyclical rebound in the economy will reduce social expenditures, including on unemployment benefits and active labor market programs, and improve tax collection.

Public debt is projected to remain at sustainable levels. The strong economic recovery, a steady appreciation in the exchange rate, fiscal consolidation, better public sector cash management, stepped-up privatization, and strengthened public debt thresholds at the local level are projected to be sufficient to maintain public debt below key national and EU thresholds.

## Public Financial Management

The Government has taken significant steps to improve the public financial management system. In late 2009, the Parliament enacted the new Public Finance Act, which significantly strengthens transparency, efficiency, and quality of budgetary process in Poland. Among others, the new legislation introduced medium-term fiscal framework and performance-based-budgeting, enhanced debt safety procedures, strengthened control and internal budget audit, and increased budget transparency through consolidation of some budgetary units and establishing separate budget for the EU funds.

The recent reforms in the area of public financial management are important steps towards fiscal sustainability, but they should be complemented by further steps. The four year rolling fiscal plans that were introduced as part of the revamped Public Finance Act in late 2009 are useful in providing guidance on medium-term policy goals. However, they are non-binding and remain focused on nominal deficits, retaining the potential pro-cyclical bias in fiscal policy. Hence, there is a need to adopt a permanent, binding expenditure rule with a deficit or debt anchor that is consistent with the authorities' medium-term targets. The framework could be further strengthened by the implementation of the ongoing multi-year performance budgeting reforms at all levels of government.

**The Bank supported the public financial management agenda in Poland** through a Development Policy Loan (DPL) series as well as technical assistance projects. The main products include: public expenditure review on Public Financial Management (PFM), public wages and social sectors, EU10 fiscal study on performance-based, medium-term budgeting, public expenditure review on the Mazowieckie region, and a technical assistance project on tax expenditures.

## Financial Sector

Along with the rest of the economy, the Polish financial sector has weathered the global financial crisis well. Although Polish financial institutions were not involved in the purchase of toxic international assets, foreign ownership and close cross-border linkages with the main European banking groups made the banking system vulnerable to the outbreak of the global financial crisis. However, no bank has experienced any significant funding difficulties. Non-performing loans (NPLs) increased from 4.5 percent in 2008 to 8.1 percent in March 2010, but remained manageable as banks continued to build up capital through retained earnings and issuance of new shares. In June 2010, the capital adequacy ratio for the banking sector amounted to 13.5 percent, up from 11.1 percent in 2008. Importantly, more than 90 percent of banks' capital was composed of Tier 1 equity, ensuring that Polish banks already complied with the new Basel III capital regulations. Given the improving economic situation, NPLs are projected to stabilize by end 2010.

Unlike in most EU countries, the Polish banking sector has remained profitable throughout the crisis, with some US\$2.5 billion of a net profit in 2009 and projected more than US\$3.0 billion of net profits in 2010, translating into ROE and ROA ratios close to pre-crisis levels. Loan to deposit ratio improved from 113 percent in 2008 to below 110 percent in early 2010, as banks increased the share of local deposits in total financing. Foreign mother banks, which control more than two thirds of the banking sector, continued to expand the volume of available financing to the Polish subsidiaries. Top-down and bottom-up stress test performed by the National Bank of Poland and the Financial Supervision Authority suggest that the banking sector would be resilient to adverse macroeconomic scenarios.

## Social Protection

Relative to other branches of the social protection system, Poland's spending on social assistance is low. Out of the 15.7 percent of GDP that Poland spent on social protection in 2007, only 1.4 percentage points was allocated for family and child allowances and minimum income assistance. The Czech Republic and Slovenia, which, like Poland, target family and child benefits based on

income, spend 2.5 and 2.3 percent of GDP, respectively. Furthermore, there are concerns about coverage and leakage. Analysis of the 2007 household budget survey suggests that about 31 percent of the population who met the eligibility criteria for some form of targeted social assistance in 2007 did not receive any social assistance, while 47 percent of the population receiving social assistance benefits would be ineligible when eligibility is assessed by consumption. In addition, there is no clear improvement in performance from giving local governments a greater role in administering social assistance since 2003.

## Pensions

In 1999, Poland undertook pension reforms to avoid major fiscal stress of the pension system related to the rapidly aging society. The traditional pay-as-you-go system inherited from the socialist times was replaced with a multi-pillar pension system that included a notional defined contribution (NDC) scheme (the first pillar) and a mandatory fully funded defined contribution scheme (the second pillar). However, on December 30, 2010, the Prime Minister announced that the Government will reduce the contribution rate to second-pillar Open Pension Funds from 7.3 percent to 2.3 percent of gross wages, and use the 5 percent of gross wages to set up a new account managed by the national Social Security Fund whose returns are linked to nominal GDP growth. In addition, important medium- and long-term challenges are to fully address early retirement and disability pensions:

- Low retirement age, especially for women. The women's retirement age of 60 is low, 5 years below men's retirement age. This leads to low retirement benefits for women retiring at the set retirement age. Benefits for men are double the benefits for women, even though men's wages are only about one-fifth higher than women's wages, as women retire so much earlier than men in spite of a higher life expectancy.
- Unreformed disability benefits threaten to swamp the system. Currently, more than two-thirds of pension benefits go to old age beneficiaries, while only one in seven go to disability beneficiaries. With the sharp reduction in old age benefits, an unreformed disability system with its much higher benefits than old age benefits could result in a roughly

equal share of spending allocated between old age benefits and disability benefits.

**The Bank supported the pension sector in Poland** recently through a series of social sector DPLs and numerous technical assistance projects. Most recently, the Bank built capacity of Government staff for developing medium- to long-term simulations for the Polish pension system.

## Health Development

Following the introduction of universal health insurance in the late 1990s, Poland's health outcomes have improved considerably and are quickly catching up to Western European standards. On the delivery side, the Semashko-style system was replaced with a health system staffed by family doctors and general practitioners providing outpatient care and a vast loosely-defined network of hospitals. On the financing side, the budgetary funded system was replaced by a social insurance system which provided universal health insurance to all citizens of the country through 16 regional health insurance funds, reorganized in 2003 into a single centralized insurance agency.

However, substantial scope for further reforms remains, especially aimed at managing cost pressures, encouraging more efficient use of resources, improving equity of access, and consolidating the financial strength of the sector to speed the improvement in health outcomes to converge with the EU15 countries.

**The Bank supported the health sector in Poland** through a series of social sector DPLs and numerous technical assistance projects. The most recent TA projects were aimed at strengthening the fiscal sustainability of long-term health care and expanding public-private partnerships in the health sector.

## Education

Poland's education system has undergone profound changes during the last two decades, both in terms of financing and management with a view to align the education system to the needs of a successful market economy. Education decentralization reform in the 1990s transferred the tasks of maintaining and managing preschools, primary schools, and finally secondary schools to

local self-governments in gminas and poviats. In 1999, the Government of Poland stepped up reforms of secondary education. They improved the integration of general secondary and vocational education and delayed the vocational training track in order to expand students' exposure to general secondary curricula. These reforms helped to provide young people with flexible skills and improved their ability to absorb and generate new knowledge and technology.

Overall, Poland's education system is remarkably efficient and equitable. While the achievements are impressive, there still remain important challenges. Specifically, the government should undertake reforms to (i) increase the coverage of pre-school education by providing legal framework for more flexible and effective early child care, (ii) adjust the pupil/teacher ratio to demographic trends, and (iii) create more equitable and fiscally sustainable model of tertiary education financing.

## **Recently, the World Bank has been active in supporting the education sector in Poland.**

The series of DPLs supported government's reforms in the area of preschool, primary, and tertiary education. The government, among others, introduced mandatory pre-school education of 5 year-olds and mandatory school education of 6 year-olds, and increased the access to students' loan program. Apart from lending, the Bank has also provided technical support through organizing regional conferences on higher education reform, providing policy advice on linkages between science curricular practices and the development of human capital for research, science and technology, and preparing policy notes on enhancing teacher performance and assessing the quality of educational services at higher education institutions.

## Transport

Poland advances the process of implementing of the largest transport infrastructure investment program in the EU. A continuously growing economy, increasing foreign trade with neighboring EU partners, as well as North-South and East-West transit needs require modern infrastructure and well organized transport and logistics services. These needs are emphasized by the fact that underdeveloped domestic and international transport infrastructure was, and to some degree still is, perceived by local and global

investors as one of the key obstacles hampering competitiveness of the Polish economy. Priority for modernizing the transport sector is additionally magnified in the context of hosting, along with Ukraine, the EURO 2012 Football Championship.

The Government has been completing an ambitious motorway and expressway development program. The new transport strategy developed as part of the National Development Strategy is expected to address several important policy challenges related to the sustainability of funding for increasing maintenance and rehabilitation cost, the role of railways in the transport system, as well as creating favorable regulatory framework policy that will stimulate fair and sustainable intermodal competition and optimization of external costs of transport, including ecological.

**World Bank funding** is supplementing activities supported by other external funds providers, primarily the EU and the European Investment Bank (EIB), while ongoing policy dialogue has led to preparation of the *Transport Policy Note: Towards Sustainable Land Transport in Poland* in 2010. The Bank also supports regional and local level partners in strengthening transport infrastructure institutions and regional, metropolitan, and municipal level transport strategic planning by providing targeted technical assistance to regional and municipal partners.

## Energy

Energy security and climate action are key priorities in the Government's strategy. The *Poland 2030* report sets a goal of harmonizing climate change and energy challenges to ensure adequate energy supplies while meeting environmental targets, including climate protection. The Government's commitment to low-carbon growth was confirmed in the *Energy Policy of Poland until 2030*, adopted by the Council of Ministers in November 2009.

Improving energy efficiency is the top priority of the Polish energy policy. As an EU member state, Poland is subject to EU policies on climate change mitigation. The EU climate change and energy package, or "the 20-20-20" targets, requires comprehensive action by EU members to achieve by 2020 a 20 percent reduction of greenhouse gas emissions below 1990 levels; 20 percent of EU energy consumption to come from renewable

resources; and a 20 percent improvement in energy efficiency. The 20-20-20 package requires Poland's energy-intensive sectors to contribute to the EU-wide target while allowing Poland's other sectors' emissions to increase by 14 percent compared with 2005.

**The Bank supports the energy and climate change agenda in Poland** through knowledge activities and financial support. A US\$1 billion DPL is under preparation to support the Government's energy efficiency agenda. The ongoing AAA program of the World Bank covers an innovative climate change study (*Transition to a Low-Emissions Economy in Poland*) and energy efficiency technical assistance. This report is part of the World Bank's series of low-carbon growth studies.

## Regional Development

Regional development within Poland is high on the political agenda. After the decentralization reforms of the early 1990s, Poland is the most decentralized country in Central and Eastern Europe. Following its accession to the EU in 2004 and increased availability of EU structural funds, regional development gained even more importance. Recently, the Government adopted a new *National Strategy for Regional Development 2010-2020: Regions, Cities, Rural Areas* to tackle regional development challenges in line with the new development model proposed by the EU. The new model assumes a shift toward support for endogenous development and the business environment, building on regional potentials; and is aimed at fostering innovation-oriented initiatives.

Despite impressive economic growth over the past 20 years, and in particular following EU accession, significant disparities in the level of development and economic performance between regions still exist. There are various dimensions of territorial inequality in Poland: the gap between the western and the eastern parts of the country, the privileged position of the capital city, and rising differences between rural and urban regions.

**The World Bank has been actively involved in the regional development agenda** through working directly with the Ministry of Regional Development as well as selected local self-governments. The modalities of the Bank's support are defined in the *Subnational Cooperation*

*Action Plan 2010-2012* and include knowledge-based activities, as well as financial support potentially through a credit line facility.

## THE WORLD BANK PROGRAM IN POLAND

**The Country Partnership Strategy (CPS) 2009-2013** was presented to the Board in June 2009, with new planned IBRD lending of about US\$4.5 billion, including a series of three programmatic DPL totaling up to EUR 3 billion (US\$4 billion). This lending program was the largest since Poland joined the Bank.

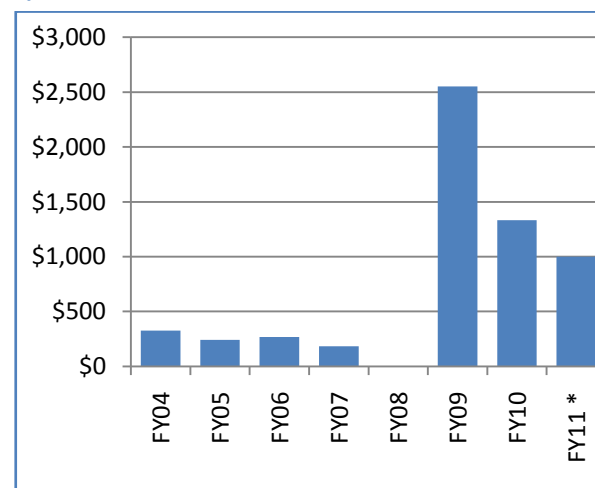
The strategic objectives the CPS are (i) Social and Spatial Inclusion; (ii) Public Sector Reform; (iii) Growth and Competitiveness; and (iv) Regional and Global Public Goods. Key policy areas identified within these broader themes include social sector reform, regional development, public finance and financial management reform, transport infrastructure development, deregulation and the enabling environment for doing business, climate change (notably focused on the energy sector), and financial sector stability.

In the short-term, particular attention is given to supporting adequate social safety nets during the economic downturn, interventions aimed at supporting private sector credit growth and SME access to finance, and infrastructure investments, while not losing sight of the reforms needed to support strong and high-quality growth over the medium- to long-term. Specific interventions are selective, guided by the Bank's main value-added relative to other partners (notably the EU and EIB). It is envisaged that the more traditional business model with lending to the central government would gradually trend toward an increased emphasis on sub-national (SN) and fee-for-service business.

The main hurdle to developing subnational lending is the requirement of a sovereign guarantee, which is costly for the client and triggers demands for equal treatment for the past and future lending from other lenders. In addition, there are also some limits and ability of the Government to provide such guarantees and the cost involved. An internal process was initiated to approve lending to non-sovereign clients through the State Development Bank (BGK), whose

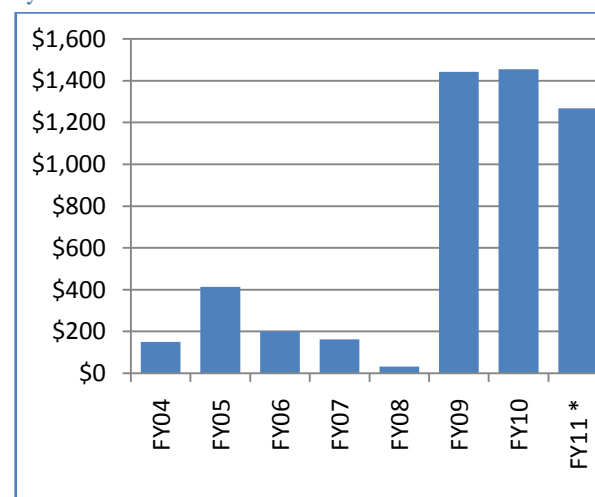
liabilities are de facto and de jure underwritten by the member state. However, it seems that such a solution might be not possible in the foreseeable future.

**Figure 1. WB New Commitments in USD million by Fiscal Years**



Notes: \*Commitment in pipeline as of March 28, 2011. Fiscal Year starts July 1.

**Figure 2. Disbursements in USD million by Fiscal Years**



Notes: \*As of March 28, 2011. Fiscal Year starts July 1.

The main hurdle for developing FBS is the standard requirement in the Polish procurement law for open tenders, including for advisory services. Some exceptions are possible and the Bank has been able to exploit these in some cases, but it is generally a main source of concern and delay. The Bank is also discussing this issue with the EC and some progress has been made. Of

course, money is also a concern in the current environment and EU funds are the main source.

**Lending Program.** The recent lending program in Poland has been anchored around the programmatic DPL series in support of Government reforms in public finance, labor market and social sectors, and private sector development. The program amounted to EUR 3 billion (US\$4 billion), distributed evenly across three loans, with the third DPL fully disbursed in July 2010. The FY11 program includes an Energy Efficiency and Renewable Energy DPL for US\$1 billion planned for Board in May 2011.

The FY12-13 financing program is planned for up to US\$2 billion, including US\$0.75 billion for Public Finance/ Administration Reform DPLs, US\$0.5 billion for Program for Results (P4R) operations in transport through the National Road Fund operated by BGK, and US\$0.75 billion for non-sovereign loans – municipal credit lines through BGK. In addition, there is a Green Investment Scheme under preparation for the purchase of emission rights from Poland under the Kyoto Protocol. If all planned operations succeed, World Bank exposure would be approximately US\$7.5 billion at the end 2013.

**Analytical and Advisory Assistance (AAA) Program.** Over FY10-11, the Bank delivered several AAA including work related to the DPL series, work related to the development of the sub-national business line, core diagnostics, and innovative studies that could pave the way for future business expansion. The DPL-related work covered a Public Expenditure Review (PER), AAA on performance-based budgeting and revenue administration, and AAA on education, health, and pensions. Sub-national work included selected Public Expenditure Reviews for the Mazowieckie region and key policy studies related to the Warsaw City transport operation. Other diagnostics included a national transport policy review.

The FY11 AAA program covered the innovative climate change study, tax expenditure report, financial sector TA focused on diagnostic of credit unions in Poland, improving the regulatory environment (FBS jointly with IFC within the *Doing Business* agenda), training for SAI, and financial reporting technical assistance (FRTAP) funded by the Swiss Confederation and managed

by the World Bank Centre for Financial Reporting Reform (CFRR).

Further AAAs are under way both at the sub-national level (Support for Regional Development Strategy for Lubelskie – FBS cost sharing) and the central government level (including ROSC Financial Sector Assessment technical assistance for the banking and insurance sector, innovation, knowledge and competitiveness (EFO), and technical assistance on: health, lifelong learning, and an EU regional pension policy review).

**Current Portfolio** consists of seven active operations: three investment loans, one Global Environment Facility (GEF) project, and three Prototype Carbon Fund (PCF) renewable energy projects. Total commitment of the active portfolio amounts to US\$471 million, out of which US\$186 million is undisbursed. All three DPLs are now fully disbursed and closed. The investment loans are for roads maintenance and rehabilitation; flood protection on the Odra River; and rural development/social inclusion.

**Portfolio Performance.** The average disbursement rate for the ongoing FY 11 is 12 percent (the disbursement ratio does not include DPLs) and it is expected to improve (especially in the Odra project). The rural development project is performing well (89 percent of the loan disbursed). The road maintenance and rehabilitation project has been a little slow on the implementation of the soft components, although the amounts undisbursed are less than 3 percent of the total loan. The unsatisfactory rated GEF energy efficiency project was successfully implemented in more than 20 schools in Krakow, but the guarantee component was not successful and the project is under restructuring. The remaining funds would be used for existing Thermo-modernization Fund projects and technical assistance related to the planned Energy Efficiency DPL. The Odra river project is now moving forward as procurement is underway for works in 2012 covering about three-quarters of the project volume; the application of the land acquisition and environmental safeguards will still require close monitoring. The road maintenance and rehabilitation project and rural development project will be closed in FY 2012.

The Bank is currently carrying out a procurement and safeguards assessment of the country systems in preparation for potential new operations.

## ONGOING PROJECTS

### ODRA RIVER FLOOD PROTECTION PROJECT (ORFPP)

*Project 086768*

**Key Dates:**

**Approved :** March 21, 2007

**Effective:** July 9, 2007

**Closing:** November 30, 2014

**Financing in million Euro\*:**

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Government of Poland	30.0	5.0	25.0
World Bank	140.1	14.2	125.9
Council of Europe Dev. Bank	204.9	13.0	191.9
European Union	130.0	0.0	130.0
<b>Total Project Cost</b>	<b>505.0</b>	<b>31.2</b>	<b>482.9</b>



**\*World Bank disbursement as of March 28, 2011.**

The Odra River Flood Protection Project (ORFPP) was developed to ensure better protection of the population in the Slaskie, Opolskie, and Dolnoslaskie Voievods provinces in south-eastern Poland, and in particular the city of Wroclaw and its surroundings, from loss of life and damage to property caused by severe flooding. These areas are heavily affected by recurrent devastating floods, most recently in 1997.

The project will achieve this through three main components:

- Rehabilitation and modernization of dikes, river embankments, and other river infrastructure;
- Construction of a flood retention dry polder (reservoir) near Raciborz town; and
- Improving flood forecasting and flood management capabilities, including monitoring and evaluation.

The project will be implemented in four phases. First, the implementation structure was established and staff trained. Also in this phase, large teams of experts (technical assistance) have been recruited to assist the implementing agencies. This first phase was completed in 2009.

In the second phase, the land for the works will be acquired, especially for the new construction of the dikes for the dry polder in Raciborz, but also in and near Wroclaw. Furthermore, 180 residential and related properties need to be acquired and the families living there, resettled. The procedures for these activities follow the Polish, European, and World Bank regulations.

The third phase, now also on-going, is the updating of the old detail designs of these works and the application of the environmental and construction permits.

The procurement process for the first four packages of works contracts were started in August 2010; works are expected to start by mid-2011.

**Expected Results:**

- (i) Improved protection for about 2.5 million people in the Wroclaw area, as well as other urban centers and towns upstream of Wroclaw such as Raciborz, Kedzierzyn, Kozle etc., against moderate and (partially) extreme flood episodes. The Wroclaw area would be protected against recurrence of the 1997 extreme flood.
- (ii) Improved flood forecasting and flood management systems in Poland, which will allow for better prevention of flood damage and for minimizing those damages.

**Key Partners:**

The main partners are the Ministries of Interior and Administration, and of Environment; implementing agencies, the Institute of Meteorology and Water Management (IMGW), and Voievod and local governments. In addition, to the Polish Government, key financial partners are the European Commission (EC), and the Council of Europe Development Bank (CEB).

## ENERGY EFFICIENCY PROJECT

Project No. P070246

### Key Dates:

Approved : October 14, 2004

Effective: March 18, 2005

Closing: June 30, 2011

### Financing in million US Dollars\*:

Financier	Financing	Disbursed	Undisbursed
GEF Grant	11.00	8.56	2.44
Private Sector	53.50	9.80	43.70
Total Project Cost	64.50	18.36	46.14

\* World Bank disbursement as of December 1, 2010.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The need to improve Energy Efficiency (EE) and to safeguard the environment has been a cornerstone of Poland's energy and environmental policy since 1990. Although substantial success in supply-side EE programs has already been achieved nationwide, it is widely acknowledged that substantial additional improvements in end-use energy efficiency and in air quality can still be achieved. Within this context, the building sector has been an underserved market for efficiency investments for a variety of reasons, and successful efforts to increase penetration rates of EE technologies and practices would yield significant long-term economic and environmental benefits for building owners and the economy at large.

**The Project Development Objective** aims to increase public and private sector investments in energy efficiency in buildings.

**The Project** addressed a range of interconnected sector issues by: (i) overcoming the risk barriers in the financial markets inhibiting commercial bank participation in energy efficiency project financing; (ii) demonstrating the feasibility of packaged investments in higher-cost energy efficiency measures in buildings and increasing acceptance of energy performance contracting mechanisms (ESCO) in Poland; and (iii) stimulating the demand for energy efficiency services in the buildings sector and increasing awareness and capacity of commercial banks to originate and implement loan transactions for EE investments.

### Results achieved:

The project successfully demonstrated the commercial viability of bundling high cost measures with lower cost measures by partially financing the greater up-front costs of measures such as windows and insulation through a Capital Grant Facility. By 2010, total investments of US\$8.9 million had been made to improve energy efficiency in schools, health care facilities, and other public buildings. In particular, the grant helped introduce and increase knowledge of the Energy Service Company (ESCO) model, in particular in the Krakow region. The project was less successful at overcoming risk barriers to commercial bank's participation in the EE market through its Partial Credit Guarantee facility. With significant financial resources available for energy efficiency projects on concessional terms from e.g. the EU structural funds, any financing model that does not have a concessional element has been difficult to introduce in the Polish market. With these changed market conditions, the credit guarantee became an inappropriate instrument to help increase commercial lending for EE investments in buildings. However, the project development objective remain relevant and the Bank is considering making changes to the Project's implementation strategy and instruments to address changed market conditions and to increase the development impact of the project.

### Key Partners:

The Bank team worked closely with the Ministry of Economy, Bank Gospodarstwa Krajowego (BGK), and POE ESCO (energy service company in the Malopolskie region).

## POST ACCESSION RURAL SUPPORT PROJECT

*Project No. IBRD 73580*

**Key Dates:**

**Approved :** January 24, 2006

**Effective:** June 12, 2006

**Closing:** June 20, 2011

**Financing from all co-financiers, million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IBRD Loan Government of Poland	88.80
	3.54
<b>Total Project Cost</b>	<b>92.34</b>

**World Bank Disbursements, million Euros \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	72.20	64.27	7.93

**\*Source Client Connection as of March 28, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



The largest negative side effect of Poland's transition to a market economy was the emergence of significant structural poverty and unemployment. While the country has enjoyed periods of relatively high economic growth, long-term unemployment has been the main underlying cause of social exclusion. Exclusion is inflamed by limited participation in the labor force or local society more widely, by deficiencies in human capital and social skills, or disability or other personal characteristics (long-term disease, addiction, etc). Breaking the exclusion cycle requires proactive policies on the part of the central and local governments to stimulate social inclusion and build social capital at the community level.

**The Project Development Objective** is to (i) increase social inclusion in rural underdeveloped administrations, or gminas, by enhancing the capacity of local governments to identify, plan, and execute social protection strategies through a Social Inclusion Program; and, (ii) to support famers social insurance (KRUS) reform by enhancing the efficiency of the KRUS Agency, through strengthening its administrative and analytic capacity and improving its management and decision-making process.

The Project addresses the problems of social exclusion and long-term unemployment in the country's gminas by enhancing the capacity of local governments to develop, cost, and execute social inclusion programs, and by providing grant financing for delivery of priority social services that have been identified in local social inclusion strategies. Further, the Project supports reform of the Agricultural Social Insurance Fund (KRUS) through efficiency, administrative, IT and analytical capacity enhancements to strengthen its administrative and analytic capacity.

**Results achieved:** Under the Social Inclusion Program (SIP), over 7,500 contracts have been signed with local service providers at a value of around €32 million, constituting 80 percent of €40 million allocated to this program. The implementation of the national awareness program is geared towards creating a framework for supporting and sustaining efforts in service delivery improvements under the two components. The Project has strengthened the capacity of the 500 rural administrations in tackling social inclusion challenges. These rural gminas are better prepared to absorb similar social inclusion-focused programs which have become available under the EU financed Human Development Program. As the Project enters its final phase of implementation, heightened attention is being focused on support to consolidate positive results and project gains, institutionalize processes, and facilitate assistance and linkages across gminas for continued support beyond the lifetime of the PARSP project. This entails renewed emphasis on governance, partnerships, and longer-term strategic planning around gmina social inclusion strategies developed under the Project.

**Key Partners:** The Bank team is working closely with the Ministry of Labour and Social Policy in Poland, the KRUS Agency and with 500 local Gminas and civil society organizations.

**THIRD ROAD MAINTENANCE AND REHABILITATION – RMR III (Ongoing) continuation of RMR (Closed On Dec 31, 2007) and RMR II (Closed On Dec 31, 2008)**  
**Project No. IBRD-73840**

**Key Dates (related to ongoing RMR III):**

Approved : June 6, 2006

Effective: July 5, 2006

Closing: September 15, 2011

**Financing in million EUR (related to ongoing RMR III)\*:**

<i>Financier</i>	<i>Financing</i>
WB	150.0
<i>Government</i>	26
<i>EIB</i>	138
<b>TOTAL</b>	<b>313</b>

**World Bank Disbursements, million Euros \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	150.0	145.6	4.4

**\*Source Client Connection as of March 28, 2011.**

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



This program (composed of three loans) is based on an innovative approach to support a long-term governmental program of national road network rehabilitation.

**The Project Development Objective** is to improve the effectiveness of Poland's national road rehabilitation and maintenance systems by: (i) significantly increasing the percentage of national roads in good condition; (ii) establishing reliable and stable funding for the national road maintenance and rehabilitation network, and for road safety; and (iii) improving the capacity within the General Directorate of Public Roads and Motorways (GDDKiA) to operate efficiently and effectively.

**The Project:** The whole program, and consequently all of the three projects, have the following components:

- (i) *Road maintenance and rehabilitation* component, including over 250 road works contracts, adding up to more than 2,000 km of rehabilitated national roads in all regions of Poland.
- (ii) *Road safety component*, providing support to public road safety campaigns (seatbelts use, drinking and driving, speeding,) and technical assistance to the Secretariat of the National Road Safety Council (NRSC) in planning and implementing activities related to the Governmental Road Safety Program - GAMBIT.

*Technical assistance and institutional support to the Ministry of Infrastructure (MoI) and GDDKiA.* Support to MoI includes advice on the development of a new Transport Strategy and training program. Assistance to GDDKiA is focused on institutional modernization and strengthening and improvements in planning and implementation of road investment and rehabilitation programs.

**Results achieved:**

The Program has already achieved and is expected to further contribute to the following benefits:

- (i) a stable and coherent medium-term rolling roads expenditure program – a revised program covering years 2011-2015 was adopted in January 2011 and is under implementation;
- (ii) significant increase in the percentage of the road network in good condition – nearly 60 percent of national roads in 2010, up from around 49 percent in 2005, and length of network designed for 11.5 tons/axle load more than doubled (from nearly 2,200 km in 2005 to nearly 5, 500 km in 2010);
- (iii) strengthened institutional capacity of MoI, NRSC, and GDDKiA to carry out their respective mandates, particularly in the area of management of road assets with an emphasis on road maintenance and rehabilitation and road safety – the number of road fatalities decreased in the period 2005-2010 by around 40 percent (fatalities per 10,000 vehicles decreased by about 83 percent).

**Key Partners:** The Bank team worked closely with the Ministry of Infrastructure, the Secretariat of National Road Safety Council (SNRSC), and the General Directorate of Public Roads and Motorways (GDDKiA).

