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Assessment of the Czech Republic's recovery and resilience plan

Key points

- The Czech recovery plan includes a number of measures supporting the energy efficiency and digitalisation agendas. However, there is almost no focus on more complex environmental questions (like biodiversity, habitats, ecosystems and soil.)
- The commitment to decarbonise appears in almost every component of the plan. Yet the current version of the recovery plan will not help the Czech Republic reach a zero-carbon economy by 2050. The country's official strategic documents are already outdated and the recovery plan has not proposed any significant improvements.
- During the process of drafting the plan, civil society groups were not sufficiently involved, and the plan was not made publicly available until 25 March 2021.

Introduction

The drafting of the Czech recovery and resilience plan is supervised by the Ministry of Industry and Trade. The plan has undergone several major modifications since the first draft was published in October due to pressure from civil society organizations (CSOs) and the European Commission. Eliminated measures include:

- Investments in highways (TEN-T network)
- Re-financialisation of the newly legislated tax reforms which caused financial distress for the state budget (loss carry back)
- Investments in LNG/CNG vehicles and infrastructure

During the process of drafting the plan, CSOs were not sufficiently involved, and the plan was not made publicly available until 25 March 2021. The Ministry of Trade and Industry, which is responsible for the recovery plan, recently (25 March 2021) created a webpage where information about the plan can be accessed (www.planobnovy.cz).

Before the first draft of the recovery plan was submitted to the European Commission in October 2020, Czech civil society organisations, professional associations, and all ministries were not officially invited to participate in the process. The Ministry of

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Industry organised participative round tables in December as response to discontent with the level of stakeholder participation. Yet these round tables were without clear rules on who can participate and what procedure will be used to consider public comments. No version of the plan was made publicly available until late March.

The total amount of the Czech plan is approximately EUR 7.4 billion from which approximately EUR 770 million will be in loans.

The newest version of the plan consists of six pillars:

1. Digital transformation - EUR 1.1 billion

- 1.1. Digital services for citizens and enterprises (EUR 114 million and **0 per cent** green agenda)
- 1.2. Digital systems of state administration (EUR 274 million and **0 per cent** green agenda)
- 1.3. Digital high-speed networks (EUR 227 million and **7 per cent** green agenda)
- 1.4. Digital economy and society, innovative start-ups and new technologies (EUR 219 million and **0 per cent** green agenda)
- 1.5. Digital transformation of enterprises (EUR 192 million and **37 per cent** green agenda)
- 1.6. Speed-up and digitalisation of the construction procedure (EUR 67.2 million and **0 per cent** green agenda)

2. Physical infrastructure and green transition - EUR 3.1 billion

- 2.1. Sustainable and secure transportation (EUR 844.1 million and **60 per cent** green agenda)
- 2.2. Reduction in energy consumption (EUR 230 million and **100 per cent** green agenda)
- 2.3. Transition towards cleaner energy sources (EUR 256 million and **100 per cent** green agenda)
- 2.4. Development of clean mobility (EUR 266 million and **100 per cent** green agenda)
- 2.5. Building renovation and air protection (EUR 730 million and **72 per cent** green agenda)
- 2.6. Natural protection and adaptation to climate change (EUR 576 million and **100 per cent** green agenda)
- 2.7. Circular economy, recycling and industrial water (EUR 169 million and **55 per cent** green agenda)

3. Education and job market - EUR 1.57 billion

- 3.1. Innovation in education in the context of digitalisation (EUR 186 million and **0 per cent** green agenda)
- 3.2. Adaptation of the capacity and focus of school programs (EUR 504 million and **0 per cent** green agenda)
- 3.3. Modernisation of employments services and development of the job sector (EUR 883 million and **0 per cent** green agenda)

4. Institutions, regulations and support of entrepreneurship in response to COVID-19 - EUR 0.56 billion

- 4.1. Systemic support of public investments (EUR 96 million and **39 per cent** green agenda)

- 4.2. New quasi capital instruments for the support of entrepreneurship and development of the ČMZRB in its role as a national development bank (EUR 154 million and **100 per cent** green agenda)
- 4.3. Anti corruption reforms (EUR 0 and **0 per cent** green agenda)
- 4.4. Increase of effectiveness of the public administration (EUR 2 million and **0 per cent** green agenda)
- 4.5. Development of the cultural and creative sector (EU 282 million and **0 per cent** green agenda)
5. **Research, development and innovation - EUR 0.51 billion**
 - 5.1. Excellent research and development in the priority areas of public interest and in the health sector (EUR 192 million and **0 per cent** green agenda)
 - 5.2. Support of research and development in enterprises and introduction of innovations into business practice (EUR 315 million and **2 per cent** green agenda)
6. **Health and resilience of the citizens - EUR 0.57 billion**
 - 6.1. Resilience of the health care system (EUR 180.5 million and **0 per cent** green agenda)
 - 6.2. Prevention of ontological diseases (EUR 393.7 million and **0 per cent** green agenda)

The plan's total allocation for the green agenda is exactly 37 per cent and the contribution towards digitalisation is 25.4 per cent. The division into categories (such as physical infrastructure and green transition) creates the illusion that this recovery plan highlights sustainability and meets the European Commission's target of a 37 per cent share of green and climate measures. In reality, less than a third of the total budget can be considered pro-environmental, and measures supporting biodiversity are below seven per cent of the total allocation.

The recovery plan and its alignment with the Czech National Energy and Climate Plan

The alignment between the recovery plan and the Czech National Energy and Climate Plan (NECP) is not a good measure for the recovery plan's contribution to decarbonisation, as the NECP was drafted before the new EU climate objective (a 55 per cent reduction in greenhouse gas emissions by 2030) was agreed upon. However, even when the EU target was 40 per cent, the Czech NECP was insufficient for reaching EU climate objectives.

For the year 2050, the Czech Policy of Climate Protection sets an emissions reduction target of 80 per cent. Neither the NECP nor this climate policy are currently being sufficiently fulfilled.

The target set in component 2.3. (Transition towards cleaner energy sources) of the recovery plan goes slightly beyond the Czech NECP and aims to increase the share of renewables in overall energy consumption from 22 per cent committed in the NECP to 22.09 per cent in 2030.

Assessment

Energy sector

- The energy sector in the Czech plan is represented by component 2.3, Transformation of industry and transition towards cleaner energy sources, and partially by component 2.5, Building renovation and air protection
- The compliance of these two components with the 'do no significant harm' principle has not been secured. The Czech government sees fossil gas as a suitable replacement for coal in district heating and also wants to invest in gas boilers as a substitute for small heating units powered by solid fuels.

District heating

The development of new heating infrastructure is included within component 2.3 (Transformation of industry and transition towards cleaner energy sources) alongside investments in new photovoltaic (PV) sources of energy. This component therefore has two separate points of focus:

1. Development of new PVs (EUR 190 million)
2. Modernisation of district heating distribution networks (EUR 64 million)

The plan says: *'For the stabilisation and development of district heating, it will be crucial for thermal energy supply systems that currently use coal to ensure the transition to another (less emission intensive) fuel (biomass, waste or natural gas by 2038 at the latest by the Coal Commission recommendation).'* This is the case for 45 heat plants. Between 2021 and 2030, the fuel sources used in these plants should be switched from coal to biomass, waste or gas.

The plan says: *'This component is fully in line with the energy politics of the European Union, whose goal is a reduction of emissions by 40 per cent by 2030'*. However, this goal is already outdated.

The main part of the district heating renovation is supposed to be financed from the Modernisation Fund, and the Recovery and Resilience Facility (RRF) will mainly finance distribution infrastructure (i.e. the Modernisation Fund will finance the generation infrastructure and RRF the distribution infrastructure).

Given that investments within this component will not be used for generation infrastructure but for more efficient distribution networks (almost 1,500 kilometres), it is counted as a 100 per cent contribution to the 37 per cent green target.

Issues:

- We see it as problematic that the subcomponent 'modernisation of the district heating distribution infrastructure' is projected to contribute 100 per cent to the green agenda. Although more efficient district heating networks are needed, at the moment, the heat will still be generated mostly by coal with a plan to switch to gas.
- The main issue with this component is that it is supposed to contribute 100 per cent to the climate objectives while investing in infrastructure which will be used for the distribution of heat from fossil

fuels. Using the same logic, we could say that building highways is not directly linked to the increase in car emissions.

Gas boilers

Support for gas boilers is included within component 2.5 (Buildings renovation and air protection) of the recovery plan. The goal of this component is to achieve 35,705 complex and medium-deep energy renovations, increased use of renewables, the construction of new buildings with very low energy intensity, support for adaptation and mitigation measures and 72,500 replacements of unsatisfactory combustion heat sources with expected energy savings of 8.4 PJ/year and reduction in CO₂ emissions of 1,350 kt/year.

The plan states that *'this component is fully in line with the EU's energy and climate policy, which sets the target of reducing greenhouse gas emissions by at least 40% by 2030 compared to 1990.'* However, this target is already outdated.

The total allocation for this component is EUR 730 million, out of which EUR 330 million will be allocated for the replacement of heat sources. (The rest is allocated mainly for energy efficiency measures related to the buildings themselves.)

The expected distribution of the newly installed heat sources is 30 per cent for natural gas, 60 per cent for biomass and 10 per cent for heat pumps. Solid fossil fuels are not supported under the measure for boiler subsidies. As mentioned above, natural gas (efficient gas condensing boilers) is the only currently supported fossil fuel.

Only new sources that meet the eco-design requirements (i.e. the requirements of Directive 2009/125/EC of the European Parliament and of the Council) and are included in one of the two highest energy efficiency classes within the meaning of Article 7, paragraph 2 of the Regulation (EU) 2017/1369 of the European Parliament and of the Council are available for financing.

These boilers meet the eco-design criteria and their expected lifespan is about 15 to 20 years.

Issues:

- Given that the lifespan of these boilers is about 15 to 20 years, we do not perceive them as an increased risk of stranded assets.
- However, gas boilers should not be supported by public finance. This creates a false sustainability discourse among the population (similar to advertisements on our buses which state 'I run on natural gas' with a big smiling emoji and green mountains in the background).
- We propose increasing the share of heat pumps and decreasing the share of natural gas.

'Do no significant harm' principle:

- Some adjustments must be made for components 2.2 and 2.5 to comply with the 'do no significant harm' principle.

Buildings

- Renovation of buildings is included in the component 2.5, Building renovation and air protection, and 2.2, Reduction in energy consumption.

In relation to the [Building Renovation Strategy](#), the Czech recovery plan is less ambitious than it could be. The Strategy states that the cumulative investment costs of reducing energy consumption by 30 PJ/year in 2030 amount to about EUR 8.5 billion, and a reduction of 47 PJ/year in 2030 about EUR 15.4 billion. The recovery plan, however, proposes to finance too few renovations to meet the objectives of the Strategy. This is problematic because the Czech government plans for the RRF to be a key source of funding for the programme of NZÚ¹, one of the main programmes responsible for building renovations. Component 2.2 also invests in renewal of the system of public lighting.

Issues:

- Component 2.5 has three sub targets: energy efficiency in buildings, replacement of heat sources in households and educational measures. At its current amount, the funds proposed in the recovery plan for this component will not be enough to meet the targets set in the Czech Building Renovation Strategy. It is necessary to increase the target of this component to 70,000 buildings and the allocation to buildings' energy efficiency to EUR 771 million (from EUR 385 million).

'Do no significant harm' principle:

- Some adjustments must be made for component 2.5 to comply with the 'do no significant harm' principle due to the inclusion of gas boilers.

Biodiversity and nature-based solutions

- Biodiversity and nature-based solutions are included within the component 2.6, Natural protection and adaptation to climate change
- This component needs several adjustments.
- It is counted as a 100 per cent contribution to climate objectives, but it should be only 40 per cent.

The purpose of component **2.6, Nature protection and adaptation to climate change**, is to contribute to the economic and environmental sustainability of the agricultural and forestry landscape in the context of climate change, in particular by retaining water in the landscape, increasing biodiversity and improving forest ecosystems.

The allocation for biodiversity protection in the Czech recovery plan is low. This does not create any opportunity for the Czech Republic to use the RRF to reach the goals of the Biodiversity Strategy 2030 or the Farm to Fork Strategy. Even though the authors of the recovery plan claim that 37 per cent of the investments included will

¹ NZÚ is a subsidy programme of the Ministry of the Environment administered by the State Environmental Fund of the Czech Republic focused on energy savings in family and apartment houses.

contribute to the green transition, in reality, such a share is currently significantly below 30 per cent and the share of this that is directed towards biodiversity is almost non-existent.

Here are some proposed changes to component 2.6, Nature protection and adaptation to climate change, that the Ministry of Environment has made:

1. Flood protection

- As part of the investment measure, funds need to be allocated exclusively for projects outside urban areas, i.e. dry polders, restoration of wetlands, revitalisation and renaturation of riverbeds. Another beneficial measure supporting water retention in the landscape would be the blinding and treatment of land reclamation in the agricultural landscape.

Appropriate adaptation measures proposed by the Ministry of Environment:

- Artificial infiltration - implementation of specific localities (EUR 9.6 million)
- Wetlands and ponds (EUR 61 million)
- Adaptation measures in buildings - green roofs (EUR 48 million)
- Program to support the use of rainwater and greywater (EUR 98 million)
- Dešťovka (covered by NZÚ - EU ETS resources) (EUR 23 million)²

2. Support for measures on small watercourses and small reservoirs

- Mud removal from ponds does not ensure their greater retention capacity and is mainly harmful to biodiversity. We propose to redirect the funds allocated for this measure to measures proposed by the Ministry of the Environment to strengthen the adaptive capacity of the landscape.

Appropriate adaptation measures proposed by the Ministry of Environment:

- Revitalisation of watercourses in the landscape and urban areas (EUR 19.2 million)
- Ponds (nature-friendly measures) (EUR 24 million)

3. Irrigation

- According to the European Commission, irrigation cannot be considered an adaptation measure. We propose to allocate these funds for the creation of wetlands.

Appropriate adaptation measures proposed by the Ministry of Environment:

- Measures against erosion on agricultural land (EUR 17 million)

4. Implementation of land improvements aimed at stabilising the landscape

² Dešťovka is a subsidy programme of the Ministry of the Environment and the State Environmental Fund of the Czech Republic. It supports sustainable water management in households. NZÚ is a subsidy programme of the Ministry of the Environment administered by the State Environmental Fund of the Czech Republic focused on energy savings in family and apartment houses.

- Within the framework of land readjustments, funds are invested mainly in the road network, including a related increase in landscape drainage. Investments related to the asphaltting of field dirt roads cannot be reported as measures to increase the adaptation of the landscape to climate change. When programmes are set, guarantees should be provided that will ensure that investments from the recovery plan resulting in landscaping planning will not finance these measures.

Appropriate adaptation measures proposed by the Ministry of Environment:

- Tree plantings (excluding forest) (EUR 53 million)

5. Improving the state of forest ecosystems

- Subsidy support should focus on under-plantings and replantings (here the Ministry of the Environment registers investment needs in the amount below), as well as on supporting the retention of land in the forest and the related strengthening of carbon sequestration in forests. Investment rules should stipulate that planting support should be spread over a longer period so that it does not run out too quickly. (The concern here is that the money will be invested quickly and solely in reforestation whose main purpose is fast carbon sequestration).
- In line with the recommendations and reservations of the European Forestry Institute, accelerated tree planting in forest soils cannot be considered an adaptation measure.

Appropriate adaptation measures proposed by the Ministry of Environment:

- Increasing the resilience of forests to drought (EUR 56 million)

6. Water retention in forests

- Damming torrents is an environmentally unfavourable measure and should not be financed by the RRF. The funds can be transferred to finance projects proposed by the Ministry of the Environment in other areas.

Do no significant harm principle:

- Some adjustments must be made for the component to comply with the ‘do no significant harm’ principle.

Transportation

- Investment in transportation is included in components 2.1, Sustainable and secure transportation, and 2.4, Development of clean mobility.

The focus of the component 2.1 is on the development of electrified railroads, digitalisation of infrastructure, noise barriers and security (e.g. crossing facilities for pedestrians, railways, etc., but also walking and biking paths). It is in line with the ‘do no significant harm’ principle because the increase of railroads in transportation has a positive impact on emissions reduction. Furthermore, trains are considered one of the most cost/material/energy efficient form of industrial transportation.

The draft of the recovery plan, following Directive 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable energy sources, declares that the share of renewable energy sources in total energy consumption in transport should be 14 per cent in 2030, of which 7 per cent should be food biofuels, 4.5 per cent advanced biofuels, 1.7 per cent biofuels under Part B (raw materials for the production of biofuels and biogas for transport) and 0.8 per cent electricity. We strongly suggest that this commitment is reformed. Biofuels represent a vested interest of our current government. Our prime minister's company Agrofert is the biggest producer of energy crops in the Czech Republic, and this vested interest should be taken into account. Continued support for biofuels is not environmentally friendly. Biofuels produce emissions, have high land use requirements and increase the price of food crops. We strongly recommend that this plan is reformed.

The investment part in the recovery plan is focused almost entirely on electric vehicles (EVs) and hydrogen (H₂) vehicles, which is a positive sign. CNG/LNG-based vehicles have been eliminated from the list. The only problematic investment is support for hybrid buses. If hybrid buses are eliminated from the recovery plan and there is a proposal for reform regarding biofuels, this measure is in line with the 'do no significant harm' principle.

'Do no significant harm' principle:

- Some legislative reforms are required for component 2.4 to comply with the 'do no significant harm' principle.
- Component 2.1 is in line with the 'do no significant harm' principle.

Digitalisation

- The digitalisation agenda permeates the whole document. The biggest contributor to the green agenda is component 1.5, Digital transformation of enterprises.
- The document states that it will have a 40 per cent climate coefficient (approximately EUR 70 million).

The rationale for this component is that its priority is to support the ecological transformation of small and medium enterprises, in particular through digital technologies. The focus of the measure is on the green and digital transition, in particular on high-capacity digital infrastructure and technologies and clean and efficient production and use of energy.

The digitisation of industry should, in essence, primarily meet digital targets, although it may also have an indirect effect on emissions reduction targets (new technologies should help reduce carbon emissions), but also help kick-start the circular economy (waste recovery and recycling).

Although this component is supposed to make a large contribution to the green agenda, we see the inclusion of this component in the green agenda as problematic. It hypothesises that digitisation will automatically lower energy and material demand. Theoretically, digitisation can actually lead to an increase in overall energy and material demand. Digitisation leads to higher production efficiency, which will bring more production capacity. Higher digital interconnection of consumers to cyberspace-based advertisement will create more demand, which can be met by more efficient automated production and distribution. Ultimately, digitisation of these

activities could lead to greater production and consumption despite the material and energy savings brought about by the digitalisation of a given company.

Although the digital transformation of enterprises can have a secondary positive impact on the energy intensity and material demands of economic activity, it should not be considered a 40 per cent contribution to the green agenda.

‘Do no significant harm’ principle:

- Component 1.5 is in line with the ‘do no significant harm’ principle.

Circular economy

- Investments in the transition towards a circular economy are included in component 2.7, Circular economy, recycling and industrial water
- The targets for this measure are in line with the strategic documents of the EU and aim to speed up the transition towards a circular economy.

‘Do no significant harm’ principle:

- Component 2.7 is in line with the ‘do no significant harm’ principle.

Economic instruments

- Relevant for the green agenda is component 4.2, New quasi capital instruments for the support of entrepreneurship and development of the ČMZR B in its role as a national development bank

Although this component does not strike us as making a 100 per cent contribution to the climate targets, it is classified this way in the recovery plan. The only provision in relation to climate/environment is:

‘The measure is generally aimed at investing in business. Only projects that respect the "do no significant harm" principle (DNSH) will be selected. In the case of investments in buildings and structures (which would be realised within the framework of the prepared investments) the feasibility study will be checked (methodically a commitment will be required that buildings will be realised in an environmentally friendly way). At the same time environmental impact assessment will be required, e.g. whether it is carried out with due diligence and whether it shows signs that the investment will not have a negative impact on the environment.’

Issues:

- Although support for small and medium enterprises is crucial for the development of more resilient local economies (which is the purpose of the ČMZR B), marking this component as a 100 per cent contribution to the climate objectives is misleading as the fulfilment of these objectives is supposed to be secured by directing these investments into climate-friendly project.
- The requirement for the component to meet the ‘do no significant harm’ principle and comply with national law on environmental assessment is important but will not guarantee that the measures

make a 100 per cent contribution to green transition. For example, we could not say the development of new businesses like restaurants or shops will have a positive climate impact if other specific criteria are not added to the measure to demand mandatory contributions to energy transformation, circular economy or nature conservation.

- This component is currently undergoing changes due to interdepartmental proceedings and the government claims that the necessary steps will be taken to ensure its 100 per cent compliance with the target 37 per cent allocation for climate objectives.

‘Do no significant harm’ principle

- Component 4.2 is in line with the ‘do no significant harm’ principle.

Brownfields

The revitalisation of brownfields was included in the recovery plan up until the last version of the draft that went into interdepartmental proceedings. It was supposed to receive approximately EUR 154 million. We would like to see this component included again due to the high number of brownfields in the Czech Republic that are currently economically unfeasible to revitalise.

The inclusion of brownfields is important because they prevent the occupation of arable land.

Conclusion

Thanks to the pressure from civil society, several harmful investments in highways and gas infrastructure were taken out of the Czech recovery plan, pushing the country towards more of a green recovery. Still, the lack of allocations for biodiversity and several problematic climate measures set the plan back.

The drafting of the Czech recovery and resilience plan has taken place largely behind closed doors. CSOs were not invited to participate in the planning process and there has not been any attempt to inform the public about the most current version of the plan and the latest changes. Despite this lack of respect for the partnership principle, the plan has undergone several major positive modifications due to pressure from CSOs and the European Commission since the first draft was published in October. Harmful projects erased from the plan included investment in highways, the re-financialisation of the newly legislated tax reforms and investment in LNG/CNG vehicles. With these harmful measures gone, the plan is largely going in the right direction, but it still makes some noticeable missteps.

There are several truly green measures, such as the construction and electrification of railroads on a massive scale. More sustainable transportation (including railroads, but also biking and walking paths) will receive EUR 844 million. Another EUR 230 million will go towards energy efficiency measures, and almost EUR 200 million towards the development of photovoltaics. Another EUR 169 million will be used for revitalisation of the recycling infrastructure in order to approximate us to the circular economy model.

Although these investments will be beneficial for the environment, when taken together they still do not reach the 37 per cent mark. Furthermore, certain measures, such as an investment in distribution networks for district

heating (more efficient pipelines), highly efficient gas boilers and financial support for the Czech development bank (ČMZRB), are also problematically considered as fully contributing to the green agenda.

Despite the fact that more efficient pipelines for district heating are needed, they will still redistribute heat from fossil fuels. Although some organisations consider gas boilers highly efficient and helpful in the short-term to alleviate air pollution, cleaner air in this case is the result of a false public discourse on sustainability and continued dependence on gas.

In addition, although support for small and medium enterprises is crucial for the development of more resilient local economies (which is the purpose of the ČMZRB), marking this measure as contributing 100 per cent to the climate objectives does not make sense. The ‘do no significant harm’ principle is supposed to be secured solely by legislation already in place (e.g. financial support only for projects which are environmentally friendly). This component is currently undergoing changes due to interdepartmental proceedings and the government claims that the necessary steps will be taken to ensure its 100 per cent contribution to the green agenda.

The Czech recovery plan has come a long way from supporting new highways and vehicles running on fossil gas. The current version of the plan is quite complex and takes into account different needs of the economy, society and climate. There are strong measures to support the country’s pathway to decarbonise and transition away from fossil fuel dependency. However, that does not mean that there are no problems with the plan.

The plan’s neglect for measures in support of nature and biodiversity conservation and several questionable climate measures are serious cause for concern. If money from these and a few other components was redirected towards more meaningful, environmentally friendly measures (e.g. more money for accelerating the renovation of buildings), the plan would meet its 37 per cent climate objective and could be considered a good example for other countries.

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