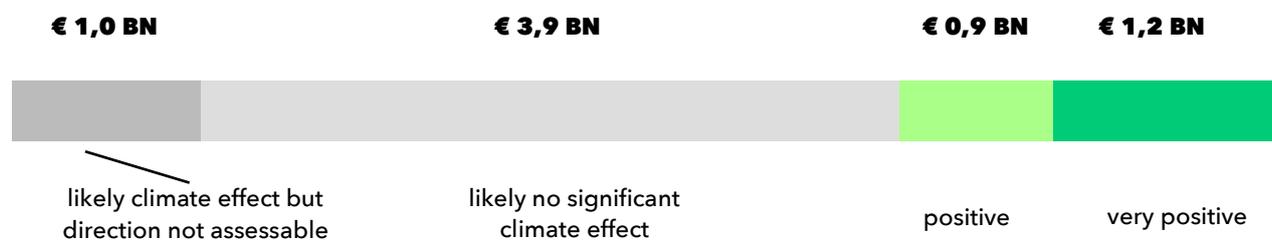


## GREEN RECOVERY TRACKER REPORT: CZECH REPUBLIC

In April 2021, after a contentious process, the Czech government presented a new version of its draft Recovery and Resilience Plan (RRP), with significant changes relative to previously released drafts. Throughout the process, civil society actors have criticized the lack of opportunities for effective participation. Overall, we find that the measures included in the draft plan, with investments of €7bn, equaling 3.3% of Czechia’s GDP (2020), can make a positive contribution to the green transition, though there are several specific shortfalls. Our analysis identifies the following spending shares:



Together with other available financial instruments, the RRP can principally be seen as a positive contribution to much-needed progress on the green transition in Czechia. Nevertheless, the government’s application of the climate tracking methodology does not always stand up to closer scrutiny, and the risk of a high carbon lock-in through investments in fossil gas projects remains a particular issue.

### In focus: Green Spending Share

We find that Czechia’s draft recovery plan (RRP) achieves a green spending share of 22%, below the EU’s 37% benchmark. Furthermore, we find that 15% (€1.0bn) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures. According to the government, the plan’s climate spending share is 37% (see page 5 for more details).

*Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to climate mitigation (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count “very positive” measures towards the green spending share, while “positive” measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.*

## OUR HIGHLIGHTS

Good Practice

### **Investments in energy efficiency and climate adaptation**

The Czech RRP allocates dedicated funding to important parts of the green transition, such as residential energy efficiency measures, biodiversity measures and climate adaptation. Nonetheless, the ultimate contribution of these measures will also depend on the specific targets and milestones that will be defined for their implementation, which have to be aligned with clear standards in order for the measures to make a very positive contribution.

Bad Practice

### **Lack of a strategic vision, including on the green transition**

There is no clear strategic vision guiding the use of the additional funding through the EU Recovery and Resilience Facility. With regards to the green transition, the RRP's relevant components are not strongly linked to each other or to an overarching framework, and do not sufficiently take EU-level dynamics regarding the implementation of the European Green Deal into account.

To Our Surprise

### **Funding for brownfield regeneration and railways disappearing from the plan**

Earlier drafts of the recovery plan included funding for the regeneration and use of brownfields, which would have made an important contribution to the green transition by increasing their adaptive capacity and allowing for the development of renewable energy projects, and local railways. These measures were no longer included in the latest draft.

## GENERAL CONTEXT

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Prior to the COVID-19 crisis, the economic situation in the Czech Republic was relatively stable, and economic issues were largely absent from the public agenda. The key economic issue that was being discussed was the low added value of industrial products manufactured in Czechia. The national economy, despite Czechia being one of the most heavily industrialized countries in Europe, relied on cheap labour, suffered from brain drain and was not fully utilizing its potential for high-tech production. There were also significant concerns with regards to the overall low wage levels in the country.

Within the field of climate policy, the coal phase out was a dominant topic. In 2019, the government convened a commission to make recommendations regarding timetable and modalities for the Czech coal exit. It recommended that coal should be phased out by 2038, but the result is still being discussed in the government, with some ministries arguing for an earlier phase out in line with the Paris Agreement and EU climate targets. The social aspects of the green transition are also an important topic in the national debate, especially with regards to the development of (former) coal regions. Lastly, long-lasting droughts and bark-beetle calamities have had manifest impacts on the state of Czech forests and arable lands, leading to an active debate on climate adaptation. At the same time, the land use sector has turned from an emission sink to a significant contributor to greenhouse gas emissions.

<b>Context indicators<sup>1</sup></b>	<b>Czech Republic</b>	<b>EU average</b>
GDP (2019)	<b>213.7 bn €</b>	
GDP (per capita, 2020)	<b>19970 €</b>	<b>29660 €</b>
Debt (% of GDP, 2019Q4)	<b>30.2 %</b>	<b>77.6 %</b>
Debt (% of GDP, 2020Q3, provisional)	<b>38.4 %</b>	<b>89.8 %</b>
Unemployment Rate (December 2019)	<b>2.0 %</b>	<b>6.6 %</b>
Unemployment Rate (December 2020)	<b>3.1 %</b>	<b>7.4%</b>
Real GDP forecast for 2020	<b>- 5.6 %</b>	<b>- 6.8 %</b>
Real GDP forecast for 2021	<b>+ 3.2 %</b>	<b>+ 3.7 %</b>
EU recovery funding (grants only, current prices)	<b>7.1 bn €</b>	

## **KEY FOCUS AREAS OF THE CZECH RECOVERY DEBATE AND THE RECOVERY PACKAGE**

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The self-described goals of the Czech Recovery and Resilience Plan are a “short-term strengthening of resilience and economic recovery” as well as “to increase economic prosperity and quality of life in the longer term”.<sup>2</sup> As the Czech Republic has one of the lowest levels of unemployment in the EU, the plan’s ambition with regards to the economic recovery is focused on productivity increases and maintaining existing employment. Furthermore, according to the government, the RRP strives “to strengthen competitiveness not in the form of price competition, but through rapid digitalization, building smart infrastructure and the so-called green transition.”<sup>3</sup> Lastly, the government also emphasizes the importance of supporting science, research and innovation through the plan.

The process around the development of the plan was contentious from its very beginning, mainly due to the absence of a public debate when a first draft was submitted in October 2020 and the absence of proper participatory processes throughout the plan’s development.<sup>4</sup> Especially early versions of the plan were perceived as strongly lacking a strategic vision and internal coherence.

The most debated component of the RRP was its second pillar on “physical infrastructure and green transition”, which will likely receive the largest share of funding. A first draft allocated 118 billion CZK, ca. 65% of the overall recovery funding of 182 billion CZK, to this pillar. The more recent draft of the plan which is the object of our analysis only allocates 80 billion CZK to this component, ca. 42% of the total of 192 billion CZK. Many of the measures that were previously included in this component were criticized for being not aligned with the green transition, such as investments into road and highway infrastructure, and it is likely that EU-level requirements and evaluations from the European Commission enabled these positive changes. Furthermore, civil society organisations and academics equally criticized that earlier drafts did not exhibit the necessary level of ambition on biodiversity, forest health and water retention measures.<sup>5</sup>

Lastly, the draft plan was criticized for prioritizing “hard” measures, such as investments in infrastructure, over “soft” measures focusing on, for instance, social inclusion or the education sector. Even the Deputy Head of the Government, Jan Hamacek, stated that Czechia should not “pour billions into concrete and patches of the state budget”.<sup>6</sup>

## **FINANCING OF CZECHIA'S RECOVERY PACKAGE**

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The RRP's measures are entirely financed through the Next Generation EU recovery instrument, utilizing the full amount of grants available and a very limited amount of the available loans. In addition, the government has taken on significant new debts to finance short-term economic stabilization measures, with a planned state budget deficit for 2020 of 500 billion CZK.<sup>7</sup>

## **GOVERNANCE OF THE RECOVERY PACKAGE**

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The RRP uses the Czech National Energy and Climate Plan (NECP) as the key point of reference for its alignment with the national climate and energy framework, complemented with ad hoc references to other relevant documents, including the national long-term strategy. The European Green Deal and EU climate targets, including a higher target for 2030, are briefly mentioned in several relevant components of the plan, but are not further utilized in the plan's general framework. Furthermore, it must be noted that Czechia's NECP, which underpins the plan's actions on climate and energy, is not aligned with the EU's new 2030 climate target and is not even fully aligned with the previous target in some dimensions.

Across the plan, "green targets" are referred to only in general terms, without any further definitions. The RRP nonetheless mentions the six objectives of the EU Taxonomy and refers to it in its elaboration on the "Do No Significant Harm" (DNSH) principle. According to the government, the plan achieves a 37% share of climate spending, while the analysis based on our methodology<sup>1</sup> identifies 22% green spending. This is mostly the result of our assessment being less positive for a number of measures which will likely not contribute to the green transition in their current form, such as investment support for business, as well as measures that may partly even undermine the green transition, such as direct and indirect for fossil gas in decentralized and district heating.

The RRP also has a separate section describing general monitoring and implementation procedures. The central coordination shall be carried out by a "Delivery Unit", a dedicated department under the Ministry of Industry and Trade. Another department at the same Ministry shall carry out auditing and oversight. Beyond this, the RRP refers to existing binding methodologies applicable either centrally or by the competent ministries overseeing the respective components. Although the control/audit/reporting procedures are described in quite some detail, it is unclear how and whether at all they should aim at ensuring the

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<sup>1</sup> Green Recovery Tracker (2021). Methodology

consistency of the different components with specific targets, including the contribution to green transition. On top of that, unlike all other EU-funded instruments, the recovery plan does not have a monitoring committee with stakeholder involvement established, and so there will likely be very limited oversight on the national level.

### **NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS (“COMPANY BAIL-OUTS”)**

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The Czech government has prepared a range of short-term support programmes for individuals and entities suffering from the economic impacts of the pandemic and necessary response measures. These include a antivirus program intended to help companies, with the state reimbursing 80% of eligible expenses, such as wage compensations paid to employees; a program for the gastronomy sector, with payments of 400 CZK per employee per day, a nursing allowance program for parents who were forced to stay at home due to school closures, and a “Covid Plus Guarantee” for large exporters.

Smart Wings, the biggest airline in the Czech Republic, has been one of the beneficiaries of the “Covid Plus Guarantee”. Another Czech airline, CSA, a subsidiary of Smartwings, has gone bankrupt due to debt, despite the plea of its parent company for a state-guaranteed loan as CSA was not meeting requirements for the Covid Plus Programme. No other measures specifically targeting airlines have been in preparation.

## **DEEP DIVE: THE MOST IMPORTANT RECOVERY MEASURES AND HOW WE ASSESS THEM**

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The most important measures with an effect on the green transition are:

- Measures supporting the electrification of railways (€257m) and railway infrastructure (€387m), which we assess as very positive due to their contribution to sustainable mobility.
- Investments into energy efficiency improvements for public buildings (€134m), which we assess as very positive due to the importance of efficiency improvements in the green transition and because the measures contain sufficiently ambitious targets and performance indicators. A further measure for investments into energy efficiency improvements in residential buildings (€384m) is only assessed as positive as it does not have as clear standards and performance indicators.
- New solar PV installations (€192m) which we assess as very positive due to the importance of increasing renewable electricity generation.
- Various investments into electric charging infrastructure for vehicles, which we assess as very positive due to the importance of replacing the use of oil in the transport sector.
- Investments into the replacement of old heating sources in residential buildings (€328m), which we assess as having a likely climate effect that is not assessable, as it is possible that this measure, despite its principally very important goal of replacing old heating sources, could contribute to a new fossil lock-in by supporting fossil gas boilers.
- Investments into the modernization of district heating (€64m), which we assess as having a likely climate effect that is not assessable, as it is highly probable that the measure will also support the use of fossil gas for district heating.
- Investments into climate-resilient forests (€328m), which we assess as positive due to the contribution of such nature-based solutions to climate mitigation.

## **ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR**

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Sector	<b>Most important measures with effect on green transition</b>
Energy	<ul style="list-style-type: none"> <li>• New solar PV installations (€192m, very positive)</li> <li>• Modernization of district heating (€64m, likely climate effect but direction not assessable)</li> </ul>
Mobility	<ul style="list-style-type: none"> <li>• Support for railway infrastructure (€387m, very positive)</li> <li>• Electrification of railways (€257m, very positive)</li> <li>• Various measures to support public and private charging infrastructure</li> </ul>
Industry	<ul style="list-style-type: none"> <li>• Research and development in enterprises (€315m, likely climate effect but direction not assessable)</li> <li>• Recycling infrastructure (€61m, likely climate effect but direction not assessable)</li> <li>• Circular solutions in private companies (€38m, positive)</li> </ul>
Buildings	<ul style="list-style-type: none"> <li>• Energy savings in residential buildings (€384m, positive)</li> <li>• Replacement of old heating sources in residential buildings (€328m, likely climate effect but direction not assessable)</li> <li>• Energy efficiency measures in public buildings with the target of increasing deep renovations (€134m, very positive)</li> </ul>
Agriculture	<ul style="list-style-type: none"> <li>• Creating climate-resilient forests (€328m, positive)</li> </ul>

*This report was written by Tomáš Jungwirth and Jan Svoboda (AMO) and Felix Heilmann (E3G). We are grateful to David Nemecek (ISFC), Jan Skalík and Anna Karnikova (FoE CZ), Simon Batik (CDE) and Magdolna Prantner (Wuppertal Institute) for providing valuable inputs.*

## REFERENCES

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<sup>1</sup> Eurostat; European Commission (2021). European Economic Forecast; European Commission (2020). Recovery and Resilience Facility - Grants allocation per Member State; own analysis

<sup>2</sup> [Východiska národního plánu obnovy](#), p.10

<sup>3</sup> [Východiska národního plánu obnovy](#), p.10

<sup>4</sup> [Příprava národních plánů obnovy nejde v zemích V4 úplně hladce](#), Euractiv, February 2021

<sup>5</sup> [Otevřený dopis k obnově krajiny](#), Hnutí DUHA (FoE CZ), March 2021

<sup>6</sup> [Miliardy z Evropského fondu obnovy budou pro Česko prokletím](#), iRozhlas, December 2020

<sup>7</sup> [Vláda schválila novelu Zákona o státním rozpočtu na rok 2020](#), Ministry of Finance, June 2020