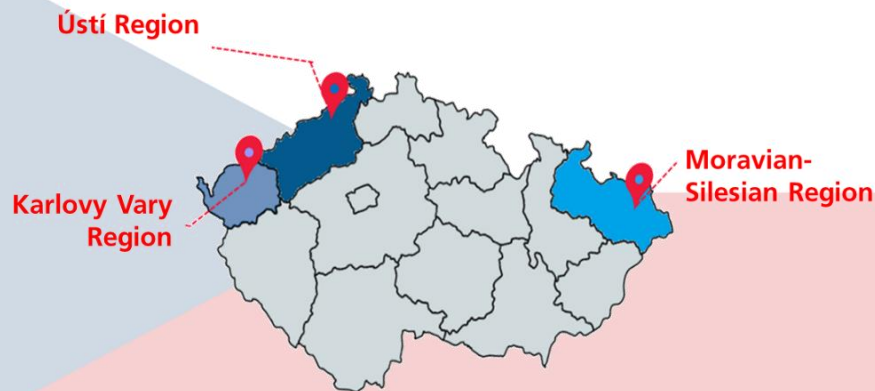


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# Support to the preparation of a Territorial Just Transition Plan in the Czech Republic



## **D5. Final Report (FINAL)** **SUMMARY**

**26.10.2021**

## Summary

**To reach its climate targets, the Czech Republic needs to reduce mining, close, or replace coal-based power plants, and modernise or close carbon-intensive industries. The transition process to climate neutrality is expected to particularly affect** communities with carbon-intensive industries and low-productivity, as well as communities with a high risk of increasing unemployment, poverty and those with high regional disparities, such as those in **the Ústí, Karlovy Vary and Moravian-Silesian regions**. These are the eligible territories in the Czech Republic that will benefit from the measures of the European Commission's Just Transition Mechanism (JTM).

**To boost access for EU Member States to the Just Transition Fund (JTF), The European Commission, represented by DG REFORM is providing Technical Support for the preparation of a Territorial Just Transition Plan (TJTP) to the Czech Republic** for the three coal regions (Ústí, Karlovy Vary and Moravia Silesia). The Project has been implemented by Frankfurt School of Finance & Management (as part of the AARC Consortium) in cooperation with Trinomics, Czech Technical University and Cambridge Econometrics (Technical Assistance team, TA team). The TA started on 5 October 2020 and lasted nine months.

**The objective of this final report** is to summarise the main implemented project activities, analyse the project monitoring indicators and provide lessons learnt, recommendations and possible follow-on activities. In addition, we will provide some further inputs concerning the dashboard and its indicators.

**Chapter 1 provides a project overview:**

- The project consists of five Deliverables (D), structured into D1: Inception report, D2: Report on governance mechanisms and stakeholder engagement, D3: Report on the transition process towards climate neutrality, D4: Report on the challenges, needs and action plans for the most affected territories and the present document D5: Final report.
- It is important to mention that the policy environment at the EU level concerning the JTM changed from being “under development” at the start of the project to a more consolidated situation. EU legislation has already been approved and published for Pillar 1 and approved for Pillar 2 (InvestEU) and the European Council/European Parliament also adopted the Public Sector Loan Facility (Pillar 3) on 14 July, 2021.
- The Ministry of Regional Development (MoRD) is preparing the final version of the TJTP in cooperation with relevant partners (The Technical Assistance team has received several versions of the TJTP - from v.1.3 to version v.1.7 - at the time of writing this final report).
- At request of the project stakeholders, in Deliverable 4, the Technical Assistance team has assessed the regional transformation plans (RTP) of the coal regions that feed into the TJTP prepared by MoRD. The latest versions examined are as follows: Karlovy Vary (v.4/06.06.21), Ústí (v.7 03. 05. 2021 and Moravia-Silesia (2021/June). However, the plans still need to reflect the latest inputs provided by D4. This Final Report includes the Action Plans (Section 2.4) that were developed based on the outcomes of D4 and the latest plans from the regions: Karlovy Vary (v.5.1/08.09.21), Ústí (v.8 30.06. 2021 and Moravia-Silesia (2021/August).

**Chapter 2 provides a summary of the undertaken activities (including all meetings and consultations** organised by the TA team with project stakeholders at each project phase). The milestones of the activities include:

- The final inception report (D1) was officially accepted and approved on 15 December 2020. Subsequently, the report (in English) has been edited for publication on the [www.dotaceeu.cz](http://www.dotaceeu.cz) webpage and has been authorised by the European Commission for publication, including a summary in Czech and English languages. To access the report, use this [link](#).

Key findings from the D1 inception report:

- The Czech Republic can build on the experience of the RE:START strategy for the strategic planning of the transition process. However, the RE:START strategy is more complex than the JTF; it runs in parallel and its structure is used to share information about the JTPs.
- The decision on the shared institutional structure of implementation (MoRD for the TJTP and MoE for the JTF) was taken by the government. Both MoRD and MoE are involved in programming activities.

- The strategic documents at the regional level correspond with the programming periods of the EU as financing from the European Structural and Investment Funds is a key source of funding for Czech regional policy.
- The Transformation Platform was established to encourage discussion and consultation for the preparation of the TJTP of the Czech Republic. It covers a range of important institutional members, which represent stakeholders on the national, regional and local levels.
- The final D2 report was officially accepted and approved on 6 April 2021. This report has also been edited for publication on the [www.dotaceeu.cz](http://www.dotaceeu.cz) webpage and has been authorised by the European Commission for publication, including a summary in Czech and English languages. To access the report, use this [link](#).

Key findings from the D2 Report on governance mechanisms and stakeholder engagement:

- The governance mechanism is largely in place for Pillar 1 of the Just Transition Mechanism (JTM) related to the Just Transition Fund (JTF). The Ministry of Environment (MoE) is the Managing Authority for the Operational Programme Just Transition (OPJT) and the State Environmental Fund is the intermediary body.
- For Pillars 2 and 3 of the JTM, the situation is less advanced. This applies to the EU and national levels. The TA team compiled and expanded possible governance options for both pillars in this report. For the long-term, the governance structure of Pillars 2 and 3 of the JTM need to be decided upon.
- It is necessary to develop a monitoring and evaluation system, which should monitor the social impacts of the transition and establish an analytically strong interim and ex-post evaluation scheme that focuses on the factors and effects of the transition in the three coal regions.
- The stakeholder engagement process for the Just Transition Agenda in the Czech Republic is at an advanced stage and has been embedded in the information flow related to the cohesion policy since early 2019.
- The prevailing stakeholder engagement model of the JTM in the Czech Republic is based on the umbrella principle (membership of institutions with multilevel structures). The predominant stakeholder engagement format is participation in meetings and webinars, and information is most often shared via email or on websites in the form of presentation slides, video recordings and meeting minutes.
- Further identification and inclusion of other important stakeholders (e.g., representatives of youth organisations, NGOs, academia, innovative SMEs) is needed to ensure a balanced representation of institutions and interests.
- The final D3 report was officially accepted and approved on 22 July 2021. This report has been edited for publication and has been authorised by the European Commission for publication on the [www.dotaceeu.cz](http://www.dotaceeu.cz) webpage. To access the report, use this [link](#).

Key findings from the D3 Report on the transition process towards climate neutrality:

- The key strategic documents have not yet fully reflected the transition to climate neutrality.
- The National Energy and Climate Plan (NECP) was prepared in 2018 and finalised in 2019, i.e., when the climate neutrality target was not yet established. The current State Energy Policy was adopted in 2015 and has been linked to 2020 energy efficiency targets, but it does not incorporate greenhouse gas (GHG) emission reduction targets.
- Investment needs for the climate neutrality transition are yet to be fully assessed and tracked.
- The transition steps towards climate neutrality are still to be defined. In December 2020, the Czech Coal Commission recommended the phase-out of coal by 2038. However, the Government has delayed its final decision.
- If the national climate transition is carried out in line with the NECP and coal-phase out expectations, it will have a positive impact on employment, the environment, and the economy. Within this context, much of the renewable energy deployment is expected to happen by 2026 and a significant reduction of final energy consumption will take place by 2030.
- The transition will have different impacts on the three transition regions. The regional development strategies reflect the coal phase-out commitment and climate transition in the energy sector. They also predominantly focus on technical aspects. Less attention is according to us paid to the diversification of regional economies. The lack of qualified employees has been mentioned as one of the key hindering factors to climate neutrality and the Just Transition.

**Table 1: Impact on Climate transition by 2030 (compared to the baseline scenario)**

Indicators	Czech Republic	Moravian-Silesian Region	Ústí Region	Karlovy Vary Region
<b>CO<sub>2</sub> reduction</b>	-17%	-27%	-28%	-28%
<b>GDP/GVA (for regions)</b>	2.9%	2.2%	0.3%	0.8%
<b>Employment (jobs)</b>	50,000	4,700	2,400	700
<b>Employment in Energy and Utilities sector</b>	-3,000	-900	-1,300	-400
<i>Employment, jobs (baseline vs. 2018)</i>	0	-3,700	-12,800	-13,200

Source: Cambridge Econometrics E3ME modelling (2021)

- The key updates from the final version of D4 were presented during the micro-board meeting organised on 28 June 2021 to facilitate an informed discussion during the official Steering Committee meeting. The updated final draft of the D4 report were submitted to the European Commission and MoRD for feedback on 5 July 2021, while a 4<sup>th</sup> Steering Committee took place on 7 July 2021 to present and discuss the main updates. The final D4 report was approved on 25 October 2021. Key findings from the D4 Report on the challenges, needs and action plans for the most affected territories:
  - Related to the assessment of the political-administrative, economic, employment/labour market, environmental, socio-cultural, and digital/technological related challenges and opportunities for the transition, the Moravian-Silesian Region has started its economic transformation towards an innovation-based economy with developed infrastructure for science and research, the Ústí and Karlovy Vary regions have not yet started such a positive development path, and for many indicators, they are increasingly lagging behind other regions.
  - The analysis of the potential of Artificial Intelligence (AI) suggests that it can have a positive impact on GHG, GDP and Employment in all three regions, particularly in the Moravian Silesian Region. For its size and economic development, the Moravian Silesian Region has more potential to benefit from selected AI use cases. The other two regions, in their digitalisation plan, identified domains where AI use cases are relevant such as autonomous vehicles, smart monitoring and management of energy consumption. The regional transformation plans developed by each of the three regions still need to include the intervention logic, the strategic focus, prioritisation of goals and clarification of overlapping funding with other schemes (state of play as of 7<sup>th</sup> July 2021).
  - Clean energy development is present as a priority in all three transformation plans. The relevant instrument for the funding will be the Modernisation Fund.
  - At the end of May 2021, the Government of the Czech Republic approved the division of the JTF into individual coal regions (Moravian-Silesian Region 46%, Ústí Region 39%, Karlovy Vary Region 15%). Technical assistance is not defined in the TJTP (version 1.7, June 2021). However, its financial scope can be estimated at CZK 1.7 billion, approximately 4% of the total OPJT allocation.
  - Related to synergy/complementarity/consistency with other programmes, many topics important for the transformation process of coal regions can be financed from programmes other than the OPJT. In terms of consistency and synergy, strong links exist with programmes that are outside the Multiannual Financial Framework (i.e., Recovery and Resilience Facility, Modernisation Fund, Innovation Fund). Other suitable programmes to finance the transition include the Multiannual Financial Framework (i.e., Connecting Europe Facility - CEF, Horizon Europe, LIFE, and Digital Europe - DEP).
  - The key actors in the capital raising strategy to finance to Just Transition will be private (key economic operators, SMEs, NGOs, individuals) and public investors (municipalities, regional authorities, universities). Nevertheless, public (EIB, the National Development Bank<sup>1</sup> (formerly Czech-Moravian Guarantee and Development Bank), SEF) and private financial intermediaries

<sup>1</sup> The Czech-Moravian Guarantee and Development Bank (CMZRB) changed its name to The National Development Bank <https://www.mpo.cz/cz/rozcestnik/pro-media/tiskove-zpravy/cmzrb-se-meni-na-narodni-rozvojovou-banku--krome-podpory-podnikatelu-sehraje-klicovou-rolu-v-rozvoji-infrastruktury--263148/>

(commercial banks and other financial institutions) are expected to play a significant role in financing the Just Transition.

- Below is a summary of the detailed recommended action plans.

**Table 2: Overview on recommended action plans for the three coal regions**

	Moravia-Silesian Region	Ústí Region	Karlovy Vary Region
Documents	RTP and List of Strategic Projects	RTP and List of Strategic Projects	RTP and List of Strategic Projects
Implementation time (min/max)	2021-2027	2021-2029	2021-2028
Instruments	Thematic calls, grant schemes <sup>2</sup> , strategic projects	Thematic calls, grant schemes <sup>2</sup> , strategic projects	Thematic calls, grant schemes <sup>2</sup> , strategic projects
Overall allocation (for JTF)	CZK 18,900 million EUR 741.18 million	CZK 15,800 million EUR 619.61 million	CZK 6,300 million EUR 247.06 million
Investment Priorities Art. 8 of JTF / Annex D	a., b., c., d., e., h., i., j., k., l., n.	a., b., c., d., e., h., i., j., k., l., m., n.	a., b., c., d., e., h., i., j., k., l., m., n.,

- During the project, the TA team organised numerous stakeholder interviews and several workshops with participants from most diverse stakeholder groups. Moreover, the TA team participated in bi-weekly calls with the Czech government as well as with the European Commission. Particularly in the Czech Republic, the Czech TA team participated in various meetings for information and consultation of the different umbrella organisations to facilitate stakeholder engagement (Transformation Platform, regional standing conference and MoE working groups).
- We have revised the additional indicators presented by MoRD and MoE to address the transformation. The initial mapping of 75 additional indicators identified 20 indicators (connected results/output indicators) that were already included in a similar form in TJTP v.1.7. However, 18 indicators (potentially connected results/output indicators) were considered relevant to the priority investment needs of TJTP v.1.7 but were not reflected the form of an indicator in TJTP v.1.7. The indicators provided by MoRD come from the RE:START strategy focusing on economic restructuring of coal regions. The MoRD in this context requested TA Team for doing their appraisal with respect to their potential and suitability for tracking and measuring the transition process. Our conclusion is that more than half (33 of 62) of these indicators do not have any connection with the priority areas identified in TJTP v.1.7. As a result, the focus of these indicators was broader than the Just Transition objectives. For the MoE indicators, the proportion is lower (4 of 13 indicators). From the 75 additional indicators, 19 are already included, 16 should be integrated and 4 should be reviewed.
- We have developed a concept dashboard with a link to a developed example for circular economy, including information on waste categories, recycling rates, disposal and recovery facilities and different trend analyses. This concept dashboard can be transferrable to other purposes.
- Concerning the analysis of the project monitoring indicators presented in the Inception Report (D1), we have mapped the status quo (refer to Section 2.5). To ensure a smooth project flow and coordination, the Project Manager has maintained a close relationship and regularly coordinated with the representatives of the relevant Czech ministries, the European Commission, and the TA team.

### **Chapter 3 reports lessons learnt and recommendations.**

During the project implementation, we have gathered **several lessons learnt**:

- **Importance of fluid and smooth information flow between the main stakeholders** of MoRD, European Commission (DG REFORM and DG REGIO) and the Technical Assistance team. In

<sup>2</sup> There was a change in the name. The grant schemes were remained as umbrella projects.



addition to the communication by email and on a one-on-one basis, the creation of regular bi-weekly meetings have been crucial. These regular touchpoints ensured timely reactions in a highly volatile project environment (Final JTF regulation was published on 30 June 2021, ongoing work on the Czech side on the regional transformation plans and the national TJTP, etc.).

- **Flexibility in expanding the expert pool.** We welcomed the flexibility of the Contracting Authority (DG REFORM) to provide a swift approval of the addition of experts to the expert pool, especially since the work on governance, financial instruments, stakeholder engagement and the regional assessment required additional resources to complement the available expertise and capacity.
- **Enhanced project governance.** We believe that the creation of a micro-board has been a valuable measure. It provided an opportunity for the main stakeholders and representatives of the coal regions to thoroughly prepare the project steering committees. This has been particularly needed given the complexity of the project and the need to ensure a focused steering committee for the project deliverables.
- **Online meetings are feasible and can be conducive to reach project objectives.** Due to the ongoing COVID-19 pandemic, it was of high importance that meetings and workshops took place online. In terms of quality, we have observed that there has not been an adverse impact on the outcomes of the meetings and workshops. This implementation modality also ensured a more intense dialogue between project stakeholders compared to a traditional face-to-face setting.
- **Visibility.** We appreciated the opportunity to develop a project flyer that immediately provided project visibility for the Technical Assistance and eased the contacting of new project stakeholders and interview partners. The D2 report includes recommendations towards the communication (and visibility of the project).

#### **Recommendations for actions or measures contributing to the Just Transition Agenda:**

- **For the representatives of the relevant Czech ministries:** During the project, the TA team issued several recommendations contained within the various deliverables. Based on the implementation status of these recommendations provided by MoRD as of 30 June 2021, we can state that MoRD has a good grasp on all aspects and several recommendations are already in place whereas others, where it is possible and suitable, are ongoing. All important issues are addressed for contributing to the overall success of the Just Transition Agenda with the following final inputs and recommendations:
  - Following the finalisation of the intervention logic of the individual thematic objectives and the transformation stories of the coal regions, it will be necessary to verify the selection criteria for the forthcoming calls for project proposals. The discussed and evaluated projects are not "entitled" to funding from OPJT; those projects have simply provided a preliminary mapping of potential possible absorption capacity. However, it is likely that after the finalisation of the intervention logics, partial specifics will emerge for the individual thematic objectives and will need to be reflected in the preparation of specific calls for projects in the OPJT. The MoRD and MoE are aware of this necessity and aim to follow this recommendation.
  - For the Just Transition Plan of the Czech Republic, it will be important to further identify and specify the overlapping of activities proposed in strategic projects with the programming documents and activities envisaged in the ESIF programmes 2021- 2027.
  - The main economic operators are currently facing turbulent market changes (increasing prices of emission allowances, soaring prices of electricity and gas, value chain disruptions and shortages). The price of coal is increasing. All these factors may change the strategic plans of firms. The government of the Czech Republic should observe the development of the business sector and account for it in the process of strategic project selection and implementation, and in the specification of calls within JTF implementation.
  - Public consultations must continue during the JTF implementation, focusing on feedback from regions and diverse communities (small business, NGOs).
- **Due to the complexity of the transformation project,** we do not see any quick wins, neither from the Czech Government nor from the European Commission. **However, the most effective approach towards the successful transformation of the coal regions** - in addition to the necessary investments for the climate transition - will be to combine strong stakeholder engagement activities with efforts to set the business ecosystem and funding to incentivise all types of businesses to increase or to establish operations in the coal regions to diversify the economy in the affected areas during the coal phase-out. Moreover, projects (including the strengthening of

education and improving living conditions) ensuring that a skilled workforce is available for those businesses will be a crucial factor to effectively manage the transition towards climate neutrality.

- **Recommendations for follow-on work:**

- Support to enhance the functioning of Pillar 1 (cross-ministerial work) and to establish the governance of Pillar 2 and Pillar 3;
- Design and implement an online survey to monitor the gaps and identify the actions needed to support and engage community in the coal regions;
- Strengthen stakeholder engagement for youth and small actors like NGOs and SMEs in the Just Transition; Innovative formats of stakeholder engagement for the implementation of the JTF should be tested (as proposed in D2);
- Support to enhance the project development capacities of small players (municipalities, SMEs, and NGOs);
- Develop a smart dashboard (inspired by the concept dashboard) for TJTP monitoring and impact measurement;
- Once the TJTP and RTPs are finished, look for support to develop a scorecard or unique index to measure the Just Transition; and
- Study tours to visit good practice projects in Germany, Hungary, and Slovakia.

**Please note that most information contained in reflect the state of affairs as of July 7<sup>th</sup>, 2021 unless otherwise indicated.**

### **Disclaimer**

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