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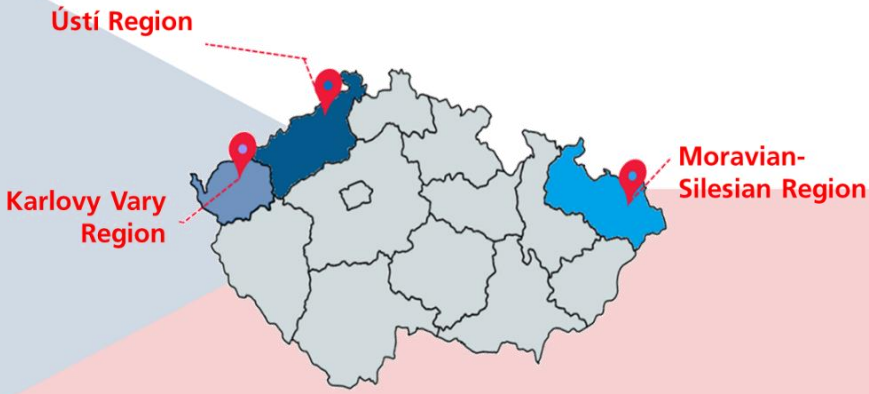

D4. REPORT ON THE CHALLENGES, NEEDS AND ACTION PLANS OF THE MOST AFFECTED TERRITORIES (FINAL)

SUMMARY

30.09.2021

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Summary

To reach its climate targets, the Czech Republic needs to reduce mining, close and replace coal-based power plants, and tackle the carbon-intensity of its industries through modernisation, the introduction of new technologies and energy efficiency measures. The transition process to climate neutrality is expected to particularly affect communities with ongoing extraction and combustion of coal/lignite and carbon-intensive industries, as well as communities with a high risk of increasing unemployment, poverty and those with high regional disparities, such as those **in the Ústí, Moravian-Silesian and Karlovy Vary regions**. These are the eligible territories in the Czech Republic that will benefit from the measures of the European Commission's Just Transition Mechanism.

The objective of this report is **to discuss the challenges and corresponding actions required for a Just Transition in the most affected territories of the Czech Republic**. The report focusses on: (1) assessing the state of play of already implemented measures and their effectiveness; (2) analysing the political-administrative, economic, employment/labour market, environmental, socio-cultural, and digital/technological related challenges and opportunities for each of three transition regions; and (3) providing a detailed discussion of the priority operations and investment needs for each of the three regions.

Chapter 1 provides information to the project context that includes the analysis of existing transition efforts and results towards a climate-neutral economy, including an outlook of planned measures and the proposed governance mechanisms for the Just Transition, the potential of Artificial Intelligence (AI) in the transition and the good practice studies.

Existing transition efforts began in 2015, when the transformation process has been supported by a specific government resolution called the Strategic Framework for Economic Restructuring (RE:START Strategy), which outlines a variety of measures to prepare for the transition. To this end, the Czech Coal Commission, an advisory body of the Czech government, was established in 2019.

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. Although the Climate Protection Policy (CPP) aims for an 80% CO_2 reduction by 2050, the CPP is an indicative, rather than binding, policy. The current State Energy Policy was adopted in 2015 and has been linked to 2020 energy efficiency targets, but it does not incorporate GHG emission reduction targets. These documents were developed in different periods and have not been clearly interconnected with respect to climate neutrality. It can be reasonably expected that climate neutrality will become the main point of reference in the revisions of these documents. The State Energy Policy is undergoing a revision at the time of writing of this report; the NECP will be revised in 2023.

Investment needs for the transition to climate neutrality remain to be fully assessed and tracked. The investment needs (reflecting pathways to decarbonisation) have not been fully quantified in the main strategic documents. The availability of funding to support the climate neutrality transition and the specific conditions of public support programmes are currently being negotiated. Importantly, a system that tracks both public and private sustainable investment in a systematic way should be established at the national level. The EU Taxonomy will be instrumental to develop such a system. Nevertheless, proper implementation in the analysis, evaluation, and decision-making processes will be key for its success at the national and regional levels.

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.

At the national level, CO_2 emissions are expected to decrease by 46% compared to baseline. Modelling at the national level suggests that full implementation of the NECP will reduce CO_2 emissions by 46% compared to the baseline (no NECP) by 2030. Total energy consumption is expected to be 13% lower than the baseline scenario by 2030. According to this scenario, coal is still expected to contribute roughly 10% of total energy production in 2030, although much of the coal supply will be substituted by nuclear and renewables. Thus, this outlook will require substantial development of renewables: up to 46% of the power generation mix in 2030 compared to roughly 13% in the baseline scenario. The NECP expects the share of renewables to reach 17% in 2030 (and 22% of total energy consumption).

The governance mechanism is to a large extent already in place for Pillar 1 of the Just Transition Mechanism (JTM) and the Just Transition Fund (JTF). In June 2021, the Cohesion policy legislative package 2021-2027 was adopted by the European Parliament, including JTF. This includes the preparation of the Territorial Just Transition Plan (TJTP) coordinated by MoRD. The Ministry of

Environment (MoE) is the Managing Authority for the Operational Programme Just Transition (OPJT) and the State Environmental Fund is the intermediate body. The preparation of the OPJT, coordinated by MoE, is largely advanced. Different governance levels (national–regional) are currently represented through one body: the Transformation Platform. The MoE also works intensively with potential institutions that should act as intermediaries for OPJT (i.e., the Ministry of Labour and Social Affairs and the Ministry of Education, Youth and Sports). The MoE also began to cooperate intensively with the CzechInvest agency during the OPJT implementation to leverage their previous experience in supporting the business sphere. The coal regions and their respective working groups are also very active in the preparations for the TJTP, which continuously maps the absorption capacity. It is a matter of identifying suitable projects for the transformation of regions which, after meeting the set conditions, could have the opportunity to be financed (not the right) from the OPJT. During June 2021, the categorisation of suitable projects took place, dividing potential projects into strategic and thematic calls or simplified grant schemes.

The design of **Pillar 2** at the EU level progressed in March 2021, when appropriate Regulation (EU) 2021/523 establishing the InvestEU Programme was adopted. The governance of this pillar will follow in the coming months. For **Pillar 3** of the JTM, the situation is progressing, too, as the European Parliament also adopted the Public Sector Loan Facility that will effectively complete all proposals under the Just Transition Mechanism. This regulation is scheduled for adoption by the Council on 12 July 2021. The Technical Assistance (TA) team[1] compiled and further developed possible governance options for both pillars in the Deliverable 2 report.

The analysis of the potential of Artificial Intelligence (AI) states that it can have a positive impact on GHG, GDP and Employment in all three regions and in particular in Moravian Silesian Region. The model shows the priority areas and the target impact in GHG, GDP and Employment. Moravian Silesian Region for its size and economic development has more potential to gain benefits 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 successful development of AI use cases** implies investments in the foundation digitalisation areas. It is recommended to address the critical aspect with particular focus to five domains (human capital, from lab to market, Infrastructure, networking, e-government service).

Finally, the overview chapter presents a series of good practices from other EU Member States (Germany, Hungary) in the areas of hydrogen buses, reconverting former coal mines and green industry clusters as well as long-term employment creation in regions of coal phase-out.

Chapter 2 of the report provides an overview on the methodology for the assessment. Chapter 3 (Ústí), Chapter 4 (Karlovy Vary) and Chapter 5 (Moravian-Silesian) include the assessment for each of the regions, by analysing various dimensions: political-administrative, economic, employment/labour market, environmental, socio-cultural, digital/technological, key economic operators and EU ETS, the (renewable) energy and heating sector. Thereafter follows the analysis of the impact of the climate transition and on jobs skills-mismatch assessment. The final part includes for each region a transition assessment, based on a SWOT analysis, the identification of the investment priorities and the strategic outlook.

From a methodological perspective, the TA team performed the analysis based on available data from the Czech Statistical Office or Eurostat, which has been supplemented by additional information provided in other strategic documents, such as Regional strategies, Regional innovation strategies, or RE:START, Strategy of regional development 21+, etc. Statistical data have been triangulated with the stakeholder interview results. A focus has been on the analysis of economic performance, sectoral composition on an inter-regional level, and firm size structure as an important precondition of economic and entrepreneurship performance. The transition process has been assessed from a holistic perspective, that is, not only in terms of a technological change but also in terms of a social change. To this end, a focus has been on social indicators, such as the development of unemployment rate and demographic development, including aging and migration. The analysis is enriched with some basic spatial analysis of the energy sector, including renewable energy capacities and potential at the regional level. Moreover, an analysis of transformation plans of key economic operators with a focus on those under the EU ETS and analysis of the expected mismatch of skills on the labour market has been performed. The analysis is synthesized through a summary of main challenges and opportunities, SWOT analysis related to the transition process, and final strategic outlooks for all three coal regions.

[1] The Technical Assistance (TA) team is the consultant team implementing this Technical Assistance assignment, led by Frankfurt School of Finance & Management (as part of the AARC Consortium) in cooperation with Trinomics, Czech Technical University and Cambridge Econometrics)

Results from the analysis indicate that while 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, are increasingly lagging behind other regions. Both regions have a regional economy that is predominantly based on the production and export of lower value-added products within global production chains. However, all three coal regions face challenges phasing-out coal and moving to a low-carbon economy due to the concentration of energy-intensive industries, the significant social impacts of the ongoing transformation, and the unfavourable images associated with the regions[2].

- The **Ústí Region** substantially lags behind other Czech regions in terms of investments in research and development activities. The region also faces unfavourable developments concerning other socio-economic indicators, such as unemployment, low education, household indebtedness, brain drain, etc. Combined, these factors create a negative image of the region. Ústí Region faces a further challenge – that is to reclaim large areas after surface lignite mining. However, if successful, land reclamation offers huge potential for new development areas and economic activities, e.g., recreation and related services, new industrial zones, energy production (RES) and storage, etc. Since the region has a strong tradition in the energy sector, the challenging energy transformation represents a great potential for further regional development. Besides land reclamation and development of modern energy systems, the region should further develop entrepreneurial ecosystem and invest into rather human and social capital, such as support of re-skilling and up-skilling for future oriented economic activities, systematic support of primary and secondary education and investments into quality of life of inhabitants.
- The **Karlovy Vary Region** has a high share of services geared towards tourism and spas. However, its economy is strongly oriented towards energy-intensive industries and is characterised by very low investment in research and development and low innovation potential. The region is also faced with several socio-economic challenges, such as continuing population decline, lack of university-educated professionals, and the emergence of socially excluded localities. Within the region, new development zones could be captured after mining land reclamation or re-use of brownfields, which could help diversify the region's economy. A key challenge is the social stabilisation of the population and increasing the qualifications of inhabitants. Thus, a corresponding opportunity is to invest in improving the quality of life of inhabitants at the municipal level, including the promotion of social cohesion and a high-quality education system (primary and secondary level). Besides that, the creation and development of the entrepreneurial ecosystem (public and private capacities) is seen among the key priorities.
- In recent decades, the **Moravian-Silesian Region** has significantly developed and improved in terms of education, transport, research and development. Based on economic indicators, the regional competitiveness is well-developed, although it is primarily based on a so-called low-road[3] strategy. The region is facing the increasing decoupling of economic and demographic/social development. Indeed, processes such as out-migration (brain-drain), ageing, and social polarisation limit the region's ability to deal with future challenges. Negative regional image, poor quality of life, ecological burdens cannot be neglected either. The region should mainly focus on further support of entrepreneurial ecosystem, diversification and upgrading of the structure of economy, support of research and development, investments into the green economy and meaningful reuse of brownfields, support of re-skilling and up-skilling for future oriented economic activities, support of universities (all roles) and investments into quality of life of inhabitants.

The transition encompasses both unique regional opportunities and challenges. Nevertheless, it would be a mistake to perceive the JTF as a "catch-all" solution to stimulate regional transformation The planned financial allocation will only cover a limited subset of regional challenges/opportunities. Therefore, it is necessary to understand the JTF related financial resources as a set of future-oriented

[2] The unfavourable image has complex historical roots and continues to impact development perspectives. All three regions have experienced dramatic social changes after World War II and a significant part of the population (e. g. Ústí nad Labem lost the majority of its inhabitants) was lost when the German population was expelled. Subsequent settlement has rapidly changed the social structure. Industrialisation attracted the immigration of lower skilled population and resulted in negative environmental impacts. The de-industrialisation process at the end of 20th century changed the formerly prosperous regions – traditional industry closed down, young and qualified people moved away, and the regions are struggling with socially-excluded localities. The overall quality of life in the regions is perceived as low.

[3] Low road strategy means that regional advantage is based on the low price of inputs such as low wages, provision of land, low taxes etc. For more details see: Cooke, P. (Ed.). (1995). Rise of the rustbelt: Revitalizing older industrial regions. Routledge or Rumpel, P., Slach, O., & Koutský, J. (2013). Shrinking cities and governance of economic regeneration: the case of Ostrava.

stimuli to un-lock the region's recovery potential. All regional projects should be created, evaluated, selected, and implemented through this lens, irrespective of their size or thematic focus.

The climate transition will have different impacts on the three regions. There are existing differences in the socio-economic indicators of the three transition regions. For instance, there is a significant gap in terms of R&D institutions, technological readiness, education and healthcare between the Moravian-Silesian Region, Ústí Region and Karlovy Vary Region as well as the rest of the Czech Republic. However, some indicators in the Moravian-Silesian Region are closer to the Czech average than to the other two regions.

As for the skills mismatch the estimated impacts of a transition scenario are as follows:

- For Ústí Region, the transition scenario provides growth in construction and manufacturing employment, which offsets the potential negative labour impacts of the NECP scenario, concentrated in the energy & utilities sector. Consequently, these are largely lower-skilled jobs in the trades workers occupation group. Nevertheless, gains can also be seen in the operators, associate professionals and professionals.
- For Karlovy Vary Region, the transition scenario reduces overall employment losses. Gains are mainly realised in the construction and manufacturing sectors and consequently they are largely lower-skilled jobs in the trades workers occupation group. Nevertheless, gains can also be seen in the operators, associate professionals and professionals. From the occupational perspective, gains are the strongest in lower-skilled occupations, while in terms of losses this is not necessarily the case: skilled employees in certain occupations can lose their current jobs.
- For the Moravian-Silesian Region, the transition scenario could lead to gains mainly in manufacturing and construction sectors, other sectors through income and supply-chain effects. The energy & utilities sector is expected to see some losses. From the occupational perspective many of these new jobs are expected to be realised in lower-skilled occupations, concentrated for example in the group of trades workers; higher skilled occupation groups, such as professionals or associate professionals gain with a more diverse sectoral composition

Chapter 6 details the operations/investment needs and priorities for each of the three regions. It also includes an assessment of the draft transition plans of each region. Moreover, it analyses the contribution of JTF support based on absorption capacity and synergy/complementarity/ consistency with other programmes.

Based on the assessment of the actual versions of the Regional Transition Plans the TA Team has identified substantial improvements in terms of analytical background and transformation story. All specific goals or expected supported activities listed in Regional Transformation Plans (RTPs) are in compliance with the JTF Regulation. However, a room for improvement remains in all Regional TPs and can be summarised as follows:

- **A clear intervention logic not yet included**, i.e., the expected change, results and impacts of the proposed measures. Similarly, the analytical background could be strengthened for some objectives.
- **Prioritisation** - the specific goals are not stratified according to the priority, i.e., all goals are given the same "weight". Karlovy Vary Region is an exception in providing a tentative allocation to the specific goals, which can be understood as a proxy for prioritisation.
- **Not integrated strategic projects** - the strategic projects must be made an integral part of the intervention logic and priority structure of the TPs. Currently, they are not directly mentioned in the priority structure of the plans in Ústí and Karlovy Vary regions. In Moravian-Silesian region, the strategic projects may need to be substantially scaled down.
- **Clarification of overlapping funding with other schemes** - most of the themes are obviously potentially overlapping with funding from other sources than JTM (for some objectives, the Karlovy Vary Region even does not foresee funding from JTM at all). This is hard to be further specified at this stage.

Founded on the assessed strengths and weaknesses in the regions by the TA team, there remain the gaps against the themes and programmes prioritised by the regions themselves in their updated *draft* transition plans.

- In the **Ústí Region**, the main gaps are related to low economic performance and economic diversity, depopulation and low levels of education, social vulnerability, and a high share of environmental

burdens. The operations needed in the region, therefore, rightly aim to build the social infrastructure and community development. Additional priorities include land-use and repurposing. Meaningful use of industrial monuments and brownfields is one of the region's opportunities in terms of diversifying the economy. With respect to demographics, the ageing of the population and an outflow of young, educated people should be clearly linked to transition objectives.

- Similarly, **in the Karlovy Vary Region**, the key identified gaps include low levels of innovations, labour mismatch, and depopulation. The analysis clearly shows the need to focus on social cohesion and improving the quality of life of inhabitants. These steps are necessary to stop out-migration and brain drain. Therefore, one of the key operations needed is social infrastructure and community building, combined with infrastructure and quality improvements on all levels of education. Education improvements should also be coordinated with encouraging the supply of skilled workers and immediate and intense work with employees from the energy and mining industry. Building support infrastructure for start-ups, support for new technologies and research activities can contribute to the diversification of the regional economy.
- For the ***Moravian-Silesian Region*****,** identified gaps relate to the low level of entrepreneurship, unfavourable demographics, and lack of social infrastructure. The transition should therefore put more emphasis on building social infrastructure and community services (possibly financed from Pillar 2 and Pillar 3 of the JTM). Similarly, the region should clearly prioritise projects related to engagement of SMEs and economic/industry diversification. Brain drain and ageing are the main demographic processes in the region. Therefore, operations targeting these two aspects are highly relevant.

Generally, clean energy development is present as a priority in all three transition plans. The operations in all three regions should be prioritised with respect to the limited support from the JTF (and compared to the absorption capacity in the projects). Other instruments such as the Modernisation Fund (district heating, energy communities) and the RRF will be highly relevant. Sustainability of the projects, especially infrastructure projects, should be clearly addressed.

Concerning the stakeholder engagement, both MoRD and the regions are including stakeholder in the process of developing and updated the TJTP and RTPs. The Deliverable 5 (Final Report) will provide more details.

The JTF support is based on absorption capacity, including allocations for technical support to tackle capacity gaps during TJTP implementation. The first section of this chapter briefly summarises the situation regarding the input allocation and its distribution among coal regions. In summary, 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. This range will be more than twice as high as other OPs in the Czech Republic and will correspond to the complexity of the OPJT. In the next section, attention is paid to the readiness of the absorption capacity of the Czech coal regions for JTF financing (as of mid-June 2021), according to the first results of mapping potential projects for financing, which the working groups in individual coal regions evaluated and also categorised into: "strategic" projects, as well as projects suitable for thematic calls or simplified grant schemes. According to the process of project readiness, mapping for OPJT funding in particular regions, the total estimated budgets of these projects are higher in comparison with the total financial allocation. Mapping the absorption capacity and readiness of projects provides a good basis on how to prepare for the implementation of OPJT projects and on potential project reserves in the project pipeline. This will also be important for individual coal regions when finalizing the definition of the intervention logic of individual TJTP priorities (finalization is expected in the first half of July 2021).

Synergy/complementarity/consistency with other programmes. The TA team focussed on identifying the consistency, synergy and complementarity of the planned interventions with other strategies such as the 2021-2027 operational programmes (i.e., ERDF and ESF+ programmes) and the EU's directly managed 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 TA team also evaluated synergies and complementarities of the proposed sub-priorities in the individual RTPs. In all these plans, complementarity and continuity with other operational programmes is laid out. However, the level of detail across descriptions is very different.
- At the same time, the individual regional transformation plans do not always have a clearly defined link to the supported activity in the JTF or other pillars of the JTM. The degree of processing and detail varies considerably.
- The MoE, in cooperation with MoRD, addressed possible overlaps and synergies with other operational programmes during April-May 2021 and will finalise the work during July 2021 (according to the information presented at the Transformation Platform in June 2021). However, in the frames of the Partnership Agreement, the closest links were with individual regional transformation plans such as OPE, OPTAC, OP Employment +, OPJAK and IROP.
- Finally, close links to the Modernisation Fund are often defined. Synergies with Pillar 2 and Pillar 3 of the JTM are also dedicated to all regional transformation plans, albeit to varying degrees of detail.

Chapter 7 presents a capital raising strategy.

The key actors in the capital raising strategy to finance to Just Transition will be small private and public investors. For these investors, several challenges that should be considered have been identified.

1. **Capacity and technical assistance**. Small players (SMEs and municipalities) tend to lack both personnel and knowledge capacity to prepare the project pipeline. Therefore, technical assistance to prepare the projects will be critical for success. One-stop-shops can be considered a good practice to help develop and implement projects for many applicants. Existing structures (e.g., CzechInvest offices) should be used to their full potential.
2. **Sensitivity to administrative burdens.** Subsidy programmes often have high administrative costs (with transaction costs reaching up to 25–30 % of the project (eligible) costs). Therefore, both the OPJT and the other mechanisms should strive to increase the flexibility of the grants where possible and lower the administrative burden, i.e., less text and easily navigable submissions.
3. The experience in the energy efficiency programmes has highlighted **the need to avoid competing with programmes that target similar activities.** In case of the JTM, the difference between Pillars 1, 2, and 3 should be made clear to potential applicants.
4. The same applies to the **potential overlaps (and complementarities) between OP JT and the other OPs, and other financial instruments** (Modernisation Fund, RRF). There will be a number of intermediaries to steer the capital raising. The exact settings of the financing environment are yet to be confirmed (for details revert to the D2 Report on Governance and Stakeholder Engagement).

Nevertheless, **commercial banks and other financial institutions are expected to play a significant role** in financing the Just Transition.

- To this end, the experience and expertise required to assess the risks and performance aspects of more novel types of undertakings, start-ups and projects of particular relevance for the Just Transition should be strengthened.
- This will include capacity building to incorporate ESG criteria in the investment assessment.
- Several financial instruments could be employed, including guarantees. The JTM provides a framework and trigger point, but other innovative instruments relevant to Just Transition, such as social bonds and green mortgages have been little explored to date in Czech Republic. However, these instruments can create the additional needed push to facilitate the Just Transition.

Chapter 8 of three subchapters, which include general comments on the monitoring background of the JTM particular pillars, as well as the necessary information on the possible use of a Smart Dashboard, and important issues to set up monitoring and evaluation systems for the TJTP and OPJT. The proposed list of indicators is part of this D4 report in the *"Annex 2: JTF activity Regulation (Article 8) and proposal of indicators for individual regional priorities"*. The TA team updated this annex according to the available information and revised regional transformation plans. It is still not possible to determine the specific programme indicators yet as the strategies of individual coal regions are still not finalised, i.e., according to the state of elaboration of regional plans (as of mid-June 2021). After several meetings with representatives of the MoRD, it was agreed that the programme context indicators will be proposed in the D5 report, i.e., at a time when the regional transformation plans will be finalised (especially the

intervention logic and transformation story). The TA team will emphasize the potential use of the Smart Dashboard for relevant program contextual monitoring indicators.

Chapter 9 follows with conclusions and recommendations. Based on findings in this report, the TA team has drawn the following conclusions and recommendations to strengthen the policy framework in the context of defined investment needs. However, what we have seen that the plans are progressing and more information is provided by the present report to overcome these observations.

- **The regional transformation plans differ in their approach, detail of elaboration, and consistency of intervention logic of the planned activities of the transformation process.**

  Although individual regional transformation plans include a description of complementarity and continuity with other operational programmes, the level of detail varies considerably. At the same time, the individual regional transformation plans do not always have a clearly defined link to the supported activity in the JTF or other JTM pillars. The degree of processing and detail fluctuates.

  Recommendation: Individual coal regions should clearly define a transformation story in their regional transformation plans, to which the intervention logics of individual groups of supported activities will be linked. The Ministry of Regional Development should give the regions clear formal guidelines for processing to synchronize the ideas of coal regions about their transformation also in terms of the TJTP. This is a prerequisite to establish criteria for project selection and the defining of indicators.

- **The prioritisation of measures in the regional transformation plans is sometimes not clear and fragmented.**

  Due to the unclear or missing definition of the transformation story, the regions decided on fragmented support, including a wide range of operations. At the same time, it will be possible to finance some activities from other operational programmes or funds. Given the unclear definition of the transformation story and the lack of intervention logic of individual areas of activity at the time of writing this report, there is a high risk of fragmented support and limited transition results.

  Recommendation: Following the definition of the transformation story and the intervention logic of individual areas of supported activities, the TA team recommends reducing the scope of supported activities. The measures in the transformation plan should consequently follow the philosophy of the JTF regulation (proposal) and underline the needs of the climate transition.

- **The transformation plans of the regions include information about complementary use of other operational programmes and funds.**

  The complementarity and synergy with other programmes are considered, but often in a very general sense. The Czech Republic is still in the process of drafting the Partnership Agreement, particularly in terms of operational programmes of the cohesion policy and the Resilience and Recovery Plan.

  Recommendation: The regions should carefully consider and evaluate the development of the programming of complementary funds and the pool of proposals for the Modernisation Fund from the coal regions. Regions should only include projects for JTF funding if they cannot be covered by other funding options (e.g., RRP and Modernisation Fund). The possibility of combining different funding sources for transition needs should be systematically analysed.

- **The regional transformation plans include a wide range of measures with respect to the climate transition and Just Transition. The strategic focus is in progress.**

  The Just Transition is aimed at mitigating the socio-economic impacts of the transition, not at the climate neutrality transition itself. Having said that, the climate mitigation actions may and often do inherently have a just, social aspect. Therefore, the climate mitigation actions (energy efficiency, low carbon technologies and other) can be part of the JTM and the Transformation Plans. However, there must be a clear link to the "Just" component of the transition. An example for all three regions is the focus of the instruments to alleviate (energy) poverty and assist vulnerable households. Similarly, the development of energy communities and democratisation of energy could be another example enhancing the investment gap in community engagement and social infrastructure (even though the energy communities as such will also be supported by the Modernisation Fund).

Recommendation: The regions should identify investment needs and potential projects aiming at "win-wins" – i.e., climate transformation and social issues (related to the energy poverty). Concerning strategic planning, the municipalities should be more involved.

- **The strategic projects in coal regions will to a large extent determine the transformation path of regions. The readiness of strategic projects for the transformation process will be crucial.**

  The strategic projects in all three regions should be submitted by the end of April 2021 for further review. They will indicate the strategic focus of key players (potential beneficiaries) and the absorption capacity in the regions.

  Rough estimates of the absorption capacity of the JTF, according to the available version of the pool of project ideas (project fiches collected in December 2020), showed that the transformation story of the regions in relation to the Just Transition and climate agenda had not been clearly defined. Therefore, it was difficult to determine the transformation potential of project intentions and planned strategic projects.

  Regarding the estimated total financial scope of the JTF, the contribution of JTF should be mostly directed towards climate agenda activities closely linked to social issues in the regions and make a significant contribution towards NECP objectives (i.e., a significant share of expected clean energy investments).

Recommendation: It is necessary to first complete the inventory of strategic projects and then comprehensively evaluate the readiness of each individual coal region for JTF financing. Thus, emphasis must be placed on the transformation story of regions and the transition to climate-neutrality. Strategic projects need to be evaluated on an on-going basis.

- **Timeframe of measures is not yet defined (which is of key importance for large economic operators).**

  The review of regional transformation plans revealed that the analytical section does not include detailed specification and timeframe of measures for large economic operators. This might partly result from uncertainty about the development of the regulatory framework (the governmental decision about the date of the coal phase-out is still undecided). In turn, this causes uncertainty about the development of the regional job market and does not provide information for small players (municipalities, NGOs) about measures and project needs as of July 07, 2021.

Recommendation: The transformation plans need to be developed and complemented with the strategic plans and measures envisaged by large economic operators, especially the main emitters (EU ETS sources) in the region.

- **The transformation plans emphasise existing productive regional structures.**

  Maintaining existing production via modernisation is partially justifiable (continuity). Nevertheless, the pitfalls of the region's lock-in process cannot be neglected. The provided scenarios of regional diversification (change) and support of new activities are rather shallow in the RTPs.

Recommendation: The story or scenarios of economic diversification need to be better elaborated. In the current state, conservation of existing productive regional structure instead of regional change (conversion) is prevailing.

- **The transformation plans at times appear to be prepared according to opportunity-led planning.**

  Consequently, for some formulated operations (e.g., support of hydrogen economy, cultural and creative industries, digitalisation), robust empirical evidence connected with regional specifics is missing and rough estimations of the future impact of the JTF on regional structures is hard to predict.

Recommendation: All transformation plans should be based on robust empirical evidence. Such evidence might allow juxtaposition between regional needs and planned operations and can help to avoid investment into unsustainable or wishful projects. To put it simply, more regional realism in transformation plans is needed.

Please note that most information contained in this report reflects the state of affairs as of July 7, 2021 unless otherwise stated. Based on comments from different stakeholders, additional information will be included in the Final Report (D5).

Disclaimer

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