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Capital Raising Strategy for Czechia

Buildings and renewable energy supply

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Project in brief

The report is a contribution to Output indicator O.2 of the project “**Climate investment capacity (CIC): climate finance dynamics & structure for financing the 2030 targets**”. The project aims to strengthen capacity of the public sector in Latvia and Czechia, gearing and adapting the implementer’s knowledge and know-how to the country challenges with help of the implementing partners. Using a learning-by-doing approach, the partners cooperate with the target group to jointly develop prototypes of (i) climate & energy investment maps to track public finance and private investment flows, (ii) investment gap & need analyses to reach 2030 climate and energy targets, and (iii) capital-raising plans to close the investment gap. This report presents the capital raising strategy in the buildings and renewable energy sectors in Czechia.

Report abstract

This report presents the capital raising strategy in the buildings and renewable energy sectors in Czechia. The report summarizes existing policy framework, financing sources and structures in both sectors. Based on in-depth interviews and focus debates with national experts, the report highlights the main existing barriers for capital raising and project development and conveys tailored recommendations to overcome the barriers and therefore to help close the gap between the current investment flows and investment need to reach the 2030 (and beyond) climate and energy targets.

Disclaimer

This project is part of the European Climate Initiative (EUKI – www.euki.de) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). It is the overarching goal of the EUKI to foster climate cooperation within the European Union (EU) in order to mitigate greenhouse gas emissions. The opinions put forward in this report are the sole responsibility of the authors and do not necessarily reflect the views of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

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Executive summary

The climate neutrality transition brings about the need for increased investment in GHG mitigation measures. Yet, in Czechia, the current investment flows namely in buildings and renewable energy sectors remain substantially lower than are the levels of investment needed to reach the 2030 climate and energy targets. Specifically, in the buildings sector the level of investment would have to roughly double in order to reach the 2030 targets, in case of renewable energy supply the investment will have to be approximately six times higher than were the 2017 levels. This report, therefore, aims at identifying the key instruments and policies to overcome the main barriers to renewable energy sources (RES) and energy efficiency (EE) project uptake, with the ultimate aim to close the investment gap facilitate the low-carbon transition of the country.

Based on in-depth interviews with stakeholders (policy makers, municipalities, financial institutions and other experts) and thorough literature review, we identified the main barriers that prevent a large scale-up of GHG mitigation measures and investment in the buildings and renewable energy sectors. Here below is a **set of recommendations to tackle each of the identified barriers**.

Lacking prioritisation and low public awareness and education on energy efficiency and renewables

Recommendations

- Create a **positive, motivating narrative** for energy savings and renewable energy for all levels of stakeholders. A prerequisite is a long-term dedicated communication campaign to send a clear message on low-carbon transformation and valuation of energy savings and renewables.
- Share **good practice examples** at regional and local level among peers has proven as a powerful tool to motivate for and scale up energy efficiency and renewable projects implementation. Good quality, complex, deep renovation projects should be widely communicated, as well as simple, behavioural, low-cost solutions. **Showcasing and visualising** the good practice examples will help engaging the target groups (citizens, municipalities, and other).
- Sustainability and energy literacy should be promoted in curricula at all stages of the educational system. The number of national and international projects in this area offer a good start for more systemic incorporation.
- **Multiple impacts** of energy efficiency and renewable energy should form an integral part of the communication and evaluation. They can serve as the tipping point.

Low strategic leadership and coordination and perceived stability of legal and regulatory framework

Recommendations

- Stable, transparent, and sufficiently motivating conditions are a prerequisite for the transformation of the Czech energy sector.

- Enhance the existing support for development and implementation of **regional and local strategic documents and action plans**, which ensure continuity and points of reference, especially in the public sector.
Share good practice and lessons learnt with the existing strategic documents at local and regional level.
- The **National Energy and Climate Plan** should be used to its full potential as the **main guiding document** to navigate the low-carbon transition pathway. Monitoring the progress of the main targets and indicators needs to be put fully in place and guide the ongoing adaptations of both the key indicators (which may need to be strengthened along the way in terms of increasing to the ambition to align with climate neutrality) and the policy framework.
- Due to the cross- and multi-sectorality of both energy efficiency and renewables, the **coordination mechanisms** among various resorts need to be strengthened and followed. Due to the growing agenda of climate and energy issues, the **internal capacities** should be **strengthened** at national, regional, and local levels to support the strategic guidance and implementation.
- In case of RES, the main need is to speed up the update of the legislative framework that will create the conditions for complex structural changes throughout the sector. This needs to be set as a clear priority, together with the adoption of a clear strategy for coal phase out. In particular, the key legislative activities entail speeding up the preparation of the new Energy Act and embedding the energy accumulation, and other (new) terms and types of entities, such as energy communities, aggregators, and entities providing storage services in the legislation, and adopting a long-term strategy for the development of the use of RES.

Low implementation of energy management and complexity of energy efficiency projects

Recommendations

- Implement financial and educational support to introduce **energy management as a form of quality management** by national and regional programmes. Encourage and support continuous work on day-to-day energy demand, including behavioural factors, with a specific focus be on small and medium enterprises. Consider a carrot-and-stick approach to introduction of energy management.
- Increase awareness about the necessity of **proper training, monitoring and evaluation after implementation** of energy efficiency measures to avoid unnecessary and undesirable rebound effects due to improper management of the new technologies and potential non-efficient energy behaviour. It can be a part of grant schemes or one of the bonus conditions.
- Technical assistance to help prepare the project pipeline should be widely available. With respect to that, focus on fully using the **potential of the programme InvestEU**.
- The various financing channels, including **EIB technical assistance** and other national sources should be widely communicated. The regional offices of CzechInvest could serve as an intermediary to further spread the knowledge.
- Additionally, the establishment of **one-stop shops** should be further explored. They could optimally be independent bodies such as regional energy agencies, which will facilitate energy

efficiency and renewable projects and guide the project developers through the whole process.

Ineffective use of financing mechanisms, budgetary constraints and administrative burden

Recommendations

- With the new multiannual financial framework and Recovery and Resilience Facility, Czechia has to start utilising a much **broader portfolio of financial instruments** to increase the leverage of public finance and thus effectiveness of public spending while enhancing the low-carbon transition. The Recovery and Resilience Plans offer a basis to write a country strategy and link it to MFF sources. Support from the Structural Support Programme could accompany this step.
Investment grants should target only very specific (sub) sectors (e.g. vulnerable households) and measures (e.g. innovative technologies). Alternatively, they should serve as an additional/accompanying support mechanism rather than stand-alone one.
The grant schemes must be complementary to other financial instruments. The new programmes should **avoid duplication** of target actions and actors, as it was the case in 2014 – 2020, thus undermining the use of financial instruments other than grants.
- **Fiscal instruments** should be taken into consideration, including carbon and energy tax and tax rebates/exemptions. For instance, tax rebates for commercial/industry sector may provide much clearer and more transparent incentive with potentially lower administrative burden as compared to investment grant schemes. In the same time, any form of fiscal instruments must be accompanied by supporting instruments to compensate for potential negative distributional effects (such as disproportionate negative effects on the most vulnerable households).
- **New models of RES development**, such as PV on rented roof and RES community projects, should be supported by **appropriate legal framework**.
- Increased investment from the private industry (heavy industry, IT and others) into RES projects through Power Purchase Agreements as a consequence from international climate obligations should be enhanced and promoted as they will allow for effective and efficient investments in green projects.
- An early and **thorough preparatory phase** of the programmes is crucial for the effectiveness of the programmes and may help decrease the subsequent administrative burden both for the administration body and the recipients of the support.
- **Stability of the institutional environment** throughout the course of the programmes increases absorption capacity.
- The **administrative processes** need to be differentiated **according to the size of projects**, with simplified procedures for smaller projects.
- Verification, monitoring and evaluation has to stay in place. In some cases, it may take form of selected sample ex-post evaluation, instead of ex-ante.
- **Simplification** of administration with respect to issuing **building and land-use permits**, including creating a single permitting decision for both permit types and ensuring that it covers all administrative bodies concerned with a project.

