

POLICY BRIEF

**REVISION OF  
CLIMATE BUDGET  
TAGGING OF  
EU FUNDS IN THE  
CZECH REPUBLIC**



# About the Centre for Transport and Energy

The issue of European funds' spending in the context of climate protection has been a focus of the Centre for Transport and Energy (CDE) for a long time. At the national level, the centre is a member of the Zelený kruh association (The Green Circle), a network of ecological NGOs which sends its representatives to interdisciplinary working groups, advisory bodies, and government councils where they advocate for the protection of nature and the environment.

Regarding European funds, it is important to mention the association's involvement in the monitoring committees of the IROP, OPE and OP TAC. One of the members of the last-mentioned committee is also a member of the CDE.

Written by: Eva Mariničová (CDE) in cooperation with Petr Bouchal and Tomáš Jungwirth Březovský (data analysis)

Infographics: Fakta o klimatu

Graphic design: Nicole Princlová (CDE)

Typesetting: Václava Marková (CDE)

Published by the Centre for transport and Energy in 2022.



# Summary

- Climate mainstreaming is becoming an important part of the European budget. The Multiannual Financial Framework for the years 2014 to 2020 anticipated 20% of the funds to be spent on climate action.
- The European Commission (EC) has its own methodology for monitoring compliance with this commitment. However, there is a lack of critical debate about whether these European funds are actually spent on climate action or not, both at the European level and in the Czech Republic.
- By employing a different approach of evaluating the climate benefit of the EU funds in the Czech Republic, the CDE conducts a critical analysis of the methodology used by the EC.
- The conclusions of the analysis are unfavourable for the Czech Republic and the European Commission alike. Proper monitoring of whether the funds are being used in compliance with the climate targets is lacking. In practice, this means that the financing supports projects which contradict EU's climate commitments.

# Introduction

The transition towards climate neutrality requires a fundamental change in public funding. Finances from the Multiannual Financial Framework are one of the main resources with which the Commission can promote the implementation of climate action throughout the entire EU, in accordance with the European Green Deal objectives.

These objectives have been newly redefined in the European Climate Law Regulation.<sup>1</sup> The rule for the 2014–2020 budget was that 20% of expenditure across all programmes shall be spent on climate action. For the current budgetary period from 2021 to 2027, this figure was increased to 30% including funds from the European Union Recovery Instrument (NextGenerationEU), which is designed to help rebuild post-COVID-19 European economies.<sup>2</sup>

Civil society plays an important role in the whole process because it can be vocal about these issues and enact pressure on the member states to comply with the conditions for drawing these funds. In other words, it can call for the money to be used on projects aiming towards carbon neutrality.

<sup>1</sup> European Commission. European Climate Law [online]. ec.europa.eu. [Accessed 7.3.2022]. Available at: [https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law\\_en](https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law_en)

<sup>2</sup> European Commission. Supporting climate action through the EU budget [online]. ec.europa.eu. [Accessed 7.3.2022]. Available at: [https://ec.europa.eu/clima/eu-action/funding-climate-action/supporting-climate-action-through-eu-budget\\_cs](https://ec.europa.eu/clima/eu-action/funding-climate-action/supporting-climate-action-through-eu-budget_cs)

However, the experience regarding participation for the forthcoming programming period 2021–2027 and the previous one, as well, shows that this principle was not fully employed during the preparatory phase of several operational programmes, especially as regards the inclusion of NGO representatives in preparatory and monitoring committees and in reporting.

The European Structural and Investment Funds (ESI Funds) are an important investment instrument which shapes the economic environment of the Czech Republic and supports investments in the transition to the green economy. These funds also make up a significant part of the European budget. More than half a trillion euros (approximately €537 billion) of funding was to be provided through the ESI Funds for the programming period 2014–2020.

The Czech Republic will be able to use almost 25,7 billion euros (€25,775,215,086). If we add to this figure the share of national public funds for EU project co-financing, which amounts to €8.7 billion, we get a total amount of €34.5 billion (€34,511,210,610).<sup>3</sup>

Thus, the Czech Republic ranks among the countries with the largest allocation per capita. It is the finances that the country receives from the ESI Funds that contribute to Czechia's status as a net recipient of the EU budget, which applies both to the current and the following programming periods.

<sup>3</sup> European Commission. European Structural and Investment Funds [online]. cohesiondata.ec.europa. [Accessed 9.3.2022]. Available at: <https://cohesiondata.ec.europa.eu/countries/CZ>

To monitor the fulfilment of the climate commitment with the help of ESI Funds, an EU methodology supported by data collection and publication is used (Commission Implementing Regulation for the 2014–2020 programming period).<sup>4</sup>

The results of this evaluation, if there is any taking place, are however not easily available and therefore missing from the public debate. Furthermore, a question arises whether the use of this methodology in the context of Czech operational programmes provides a valid picture of the ESI Funds' role in the area of climate change; in other words, whether the funding truly serves to fulfil these objectives or not.

The present study aims to provide an independent approach to the assessment of the climate benefit of the EU funds in the Czech Republic in the current budgetary period (2014–2020, but with a drawing of finances continuing in the following years as per the N+3 rule). This analysis thematically follows on from the evaluation of climate measures implemented by the European Commission, but it differs methodologically, as it applies an independently developed methodology which was previously used to assess the National Recovery Plan and its compliance with a similar commitment.<sup>5</sup>

As such, it can serve as material for both the creators and administrators of operational programmes, and for civil society whose active participation is one of the fundamental principles of ESI Funds management.

<sup>4</sup> EUR-Lex. Commission Implementing Regulation (EU) No 215/2014 [online]. eur-lex.europa. [Accessed 9.3.2022]. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0215>

<sup>5</sup> Green Recovery Tracker. Our Methodology [online]. greenrecoverytracker. [Accessed 9.3.2022]. Available at: [https://www.greenrecoverytracker.org/methodology\\_](https://www.greenrecoverytracker.org/methodology_)

# Methodology

The present analysis is methodologically based on the [Green Recovery Tracker](#), a tool developed in 2021 by the Wuppertal Institute and E3G, which was used for a similar assessment of the National Recovery Plans (during the preparatory phase) in terms of compliance with the norm of 37% of finances being allocated for climate action. The review of the previous (and later amended) version of the Czech national plan passed by the government in spring is available [here](#).

The European Commission's methodology is based on the tracking of three coefficients that mirror the indicators used by the OECD (Organisation for Economic Co-operation and Development): a coefficient of 100% assigned to funding with a significant contribution to climate objectives; 40% assigned to funding with a moderate contribution; and 0%, which is used for funding with no or insignificant contribution. This method of measurement is relatively clear and easy to follow.

But, for example a study conducted by the European Court of Auditors states that this methodology might overestimate results, and that it does not distinguish between mitigation and adaptation.<sup>6</sup>

<sup>6</sup> European Court of Auditors. Review No 01/2020: Tracking climate spending in the EU budget [online] [Accessed 16.3.2022]. Pages 3-4. Available at: <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=54194>

Examples of the most relevant intervention fields for climate action and their climate coefficients in ERDF and CF in 2014–2020 are shown in the table below.

Coefficient	Intervention field
100%	<ul style="list-style-type: none"> <li>• Energy efficiency renovation;</li> <li>• Adaptation to climate change measures, prevention and management of climate related risks;</li> <li>• Research and innovation infrastructure regarding low carbon economy and resilience to climate change;</li> <li>• Cycle tracks and footpaths;</li> <li>• Renewable energy: wind, solar, biomass, other;</li> <li>• High efficiency co-generation and district heating.</li> </ul>
40%	<ul style="list-style-type: none"> <li>• Clean urban transport infrastructure and promotion;</li> <li>• Railways;</li> <li>• Protection and enhancement of biodiversity, nature protection and green infrastructure;</li> <li>• Water management and drinking water consumption.</li> </ul>
0%	<ul style="list-style-type: none"> <li>• Investments in electricity, natural gas;</li> <li>• Household waste management; Modernisation of motorways and roads;</li> <li>• Investments in public administration and service</li> </ul>

Source: The author with reference to the [Commission Implementing Regulation \(EU\) No 215/2014, Annex I.](#)



It should be mentioned at this point that this methodology has been partially revised, and for the 2021–2027 period applies two sets of coefficients – one for the calculation of support to climate change objectives, and the other for the calculation of support to environmental objectives.<sup>7</sup>

However, according to the analysis by Climate Action Network Europe, even there is a number of aspects that are problematic in terms of climate change objectives because in practice, some interventions prolong the support of fossil projects; e.g. “High efficiency co-generation, district heating and cooling”, “Alternative fuels infrastructure” or “Newly built railways” which were assigned a coefficient of 100%.<sup>8</sup>

That is one of the reasons why the revision done by the CDE goes even further by following the example of the Green Recovery tracker and introducing a negative tag, which is missing in the official approach of the European Commission. In addition to a zero coefficient, items can also be rated using -40% (negative) and -100% (strongly negative).

Thus, this review does not aim to be a “mirror image” of the Commission’s official approach; rather, it offers an alternative view which may be more critical as regards the final evaluation. While in officially reported data the climate tags are always assigned to a certain intervention field (and then one intervention field is often covered by various operational programmes), our approach is more granular.

<sup>7</sup> EUR-Lex. Regulation (EU) 2021/1060 of the European Parliament and of the Council [online]. eur-lex.europa. [Accessed 16.3.2022]. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R1060#>

<sup>8</sup> Climate Action Network Europe. Climate Mainstreaming and Climate Proofing: The Horizontal Integration of Climate Action in the EU Budget – Assessment and Recommendations [online] [Accessed 16.3.2022]. Page 10. Available at: <https://www.caneurope.org/content/uploads/2018/09/Assessment-EU-budget-climate-mainstreaming-CAN-Eur-ope-August-2018.pdf>

With each item, we proceed from a particular concurrence of an intervention field and a specific objective within one OP. It must be said that this may be one of the limits of this paper, meaning the fact that it is not individual projects that are being tagged.

On the other hand, the evaluation itself is based upon the analysis of individual programming documents. The issue is that the measurability of the climate benefit is one of the key variables when it comes to the credibility of a positive assessment. Where necessary for a deeper understanding of where the expenditure really flows, we also looked at the level of individual projects (typically energy, heating).

**In practice, we proceed as follows:**

- Measures with an obvious climate benefit (with an emphasis on mitigation, but adaptation is also accepted), where the benefit is thoroughly described and measurable are tagged 1 (100%).
- Measures with an obvious climate benefit (with an emphasis on mitigation, but adaptation is also accepted), where a thorough description of said benefit is missing or is not supported by relevant and measurable indicators are tagged 0.4 (40%). The same tag is assigned when the climate potential of the measure is not sufficiently developed due to the measure's sub-optimal employment.
- Measures without a direct climate relevance are tagged 0.

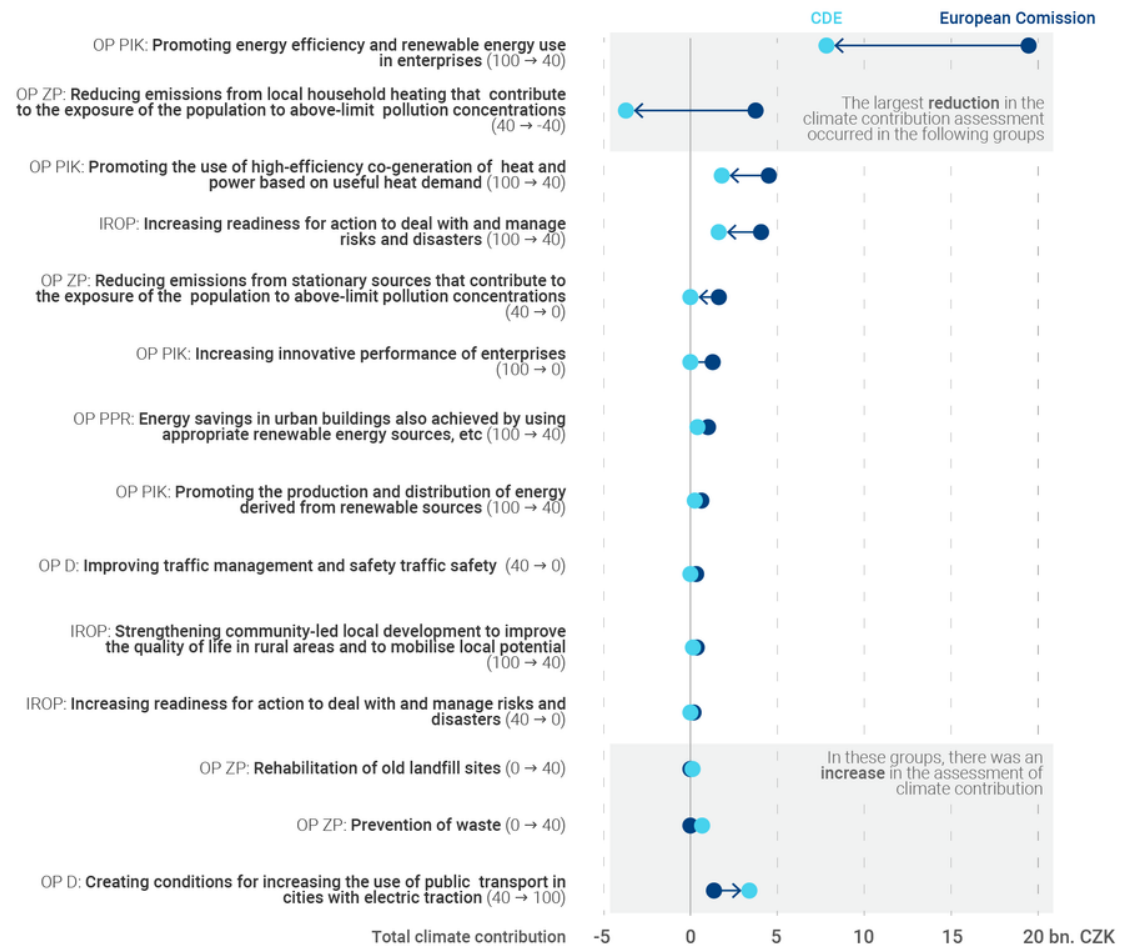
- Measures which pose a threat of carbon lock-in, i.e., finances being invested in high-emission sources or infrastructure (typically natural gas in heating and transportation), are tagged -0.4 (-40%). If there were measures that allocate funding entirely or almost entirely for such types of projects, we would tag them -1 (-100%), but that does not happen in this analysis. Measure assigned negative tags can be seen as violations of or threats to the DNSH principle (Do No Significant Harm).

And so, for each measure, each intervention field, each specific objective, and operational programme, we get a 'weighted climate tag' (or weighted climate contribution) per amount drawn, as shown in [Github](#).

Below is a list of examples of the reclassification of individual project groups.

**CONTRIBUTION OF INDIVIDUAL PROJECT GROUPS TO CLIMATE ACTION EUROPEAN COMMISSION'S METHODOLOGY COMPARED TO CDE'S METHODOLOGY**

Only groups where the change is greater than CZK 100 million are included.



The biggest change in the tagging occurred due to missing measurable indicators, which means that current system is not working.

The infographics clearly show that a major regrouping affected mainly interventions that pose a threat in the form of promoting natural gas projects which could seriously hinder the transition towards a low-carbon economy, or lead to a carbon lock-in.

These are, more specifically, projects aimed at increasing the efficiency of heat supply systems, replacing old boilers with new solid fuel ones, and natural gas.

# Main findings

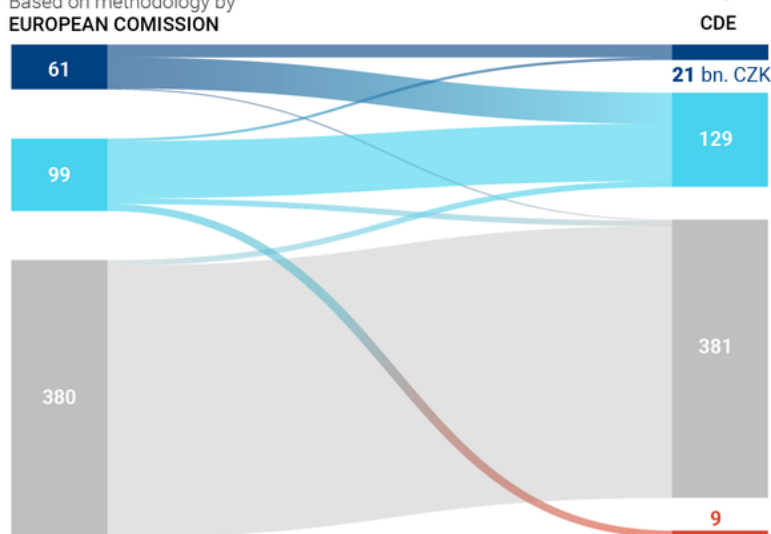
Below you can find the comparison of tags and final results.

## CLIMATE CONTRIBUTION of supported measures

bn. CZK, 2014–2020

- 100% = Significant
- 40% = Moderate
- 0% = Neutral
- -40% = Negative

Based on methodology by EUROPEAN COMMISSION



Compared to the European Commission, the CDE additionally tags **negative climate contribution** (-40%).

### CHANGES IN EVALUATION BY CDE

The climate contribution of the measures was most often reduced for areas of intervention supporting gas projects where there is a risk of **carbon lock-in**. Specifically, these are projects aimed at increasing the efficiency of heat supply systems or replacing boilers with new ones that are based on solid fuel and gas.

The infographics above show that especially the coefficient of 100% suffered a significant spill-over.

Discussions with relevant Czech and European authorities uncovered the following facts.

The intervention field categories were assigned by the applicants themselves using a methodology handbook provided by the relevant managing authority.

Each handbook contains a selection of intervention fields which were narrowed down by said authority, and which are relevant for the applicant and the particular project and objective. To illustrate, we will use a specific example: in the Operational Programme Environment 2014–2020, calls for applications were always linked to one particular objective. Each call had a set of relevant intervention fields assigned in the monitoring system, and the applicants could select from them while drafting their application based on which intervention field corresponded with the nature of their application. The registered applications were subsequently reviewed by the intermediaries. In the new period, a number of intervention fields will no longer be assigned by the applicant but directly by the managing authority or the intermediary. It is therefore clear that the applicant is not motivated to purposefully manipulate the intervention fields since the selection of an intervention field, albeit with the 100% tag, does not influence whether the application will be selected or not.

According to Article 50 of Regulation (EU) No 1303/2013, the European Commission obliges member states to provide annual reports with information on the support for climate change objectives. These reports contain values from the given intervention field codes that are processed automatically with regard to the coefficients. This means that if one opens an annual report, one learns the indicative amount of funding to be spent on climate action objectives, and the share of the total allocation for the OP, as seen in the OPEIC 2020 annual report.<sup>9</sup>

<sup>9</sup> Czech Ministry of Industry and Trade. OPEIC Annual Report 2020 [online] [Accessed 29.3.2022]. Page 225. Available at: <https://mpo.cz/assets/cz/podnikani/dotace-a-podpora-podnikani/oppik-2014-2020/operacni-program-podnikani-a-inovace-pro-konkurenceschopnost/2021/10/Vyrocnizprava-OP-PIK-2020.pdf>

However, even the ministries admit that the projects do not have to be monitored for validity, i.e., for their actual climate impact, ex-post. For the purposes of the methodology used by the European Commission, it is the coefficient of a given intervention field that is important, not the actual impact on the climate.

It would seem that even at the European level there is a lack of an in-depth discussion about the validity of such reporting, and about whether the finances spent are actually helping achieve the climate objectives in the long term. The European Commission publishes a report every three years summarizing the long-term trends and outlooks of cohesion policy. The eight, and the latest, cohesion report was published earlier at the beginning of this year.<sup>10</sup> The document sums up conclusions regarding specific policy objectives including those related to climate protection. The measure of success here is the number of implemented projects and the total amount invested in a given objective. However, a critical reflection about the chosen methodology is missing.

As part of the discussion about the annual EU budget, the European Commission issues documents about the adoption and performance of the ending budgetary period. An account of the impact that EU funding has on the climate objectives is a significant part of it. For example, the working document accompanying the draft general budget of the European Union for the financial year 2022 shows on page 10 a breakdown of funds between the various financial instruments.

<sup>10</sup> European Commission. Eighth Report on Economic, Social and Territorial Cohesion [online] [Accessed 29.3.2022]. Available at: [https://ec.europa.eu/regional\\_policy/en/information/cohesion-report/](https://ec.europa.eu/regional_policy/en/information/cohesion-report/)

For the programming period 2014–2020, priorities in climate protection were to be taken into account during all stages of the programmes; preparation, implementation and evaluation. According to the Commission, all programmes should contribute to both mitigation and adaptation.<sup>11</sup>

At this point, it should be noted that cohesion policy, including ESI Funds, is implemented under a shared management system, i.e., the Commission entrusts the member states with implementing programmes at the national level. Member states then allocate finances to the final beneficiaries.

The member states have primary responsibility for setting up a Management and Control (MCS) System that complies with the requirements of EU regulations, for ensuring the effective functioning of the system, and for the prevention, detection and correction of discrepancies. The Commission plays a supervisory role by satisfying itself that the arrangements governing the MCS are compliant. This was confirmed during our communication with the ministries and the relevant authorities within the EC. In this particular case, the European Commission relies on the Czech Republic to assume responsibility for the projects, from their preparation to implementation. But on the other hand, it is clear that in terms of climate tagging and enforceability, there is a dispute as to who is responsible for the ex-post evaluation. The Czech Republic believes it is the European Commission, while the Commission assigns this responsibility to the Czech authorities.

<sup>11</sup> European Commission. Draft general budget of the European Union for the financial year 2022. Working document. Part I. June 2021 [online] [Accessed 29.3.2022]. Available at: [https://ec.europa.eu/info/sites/default/files/about\\_the\\_european\\_commission/eu\\_budget/d2022\\_wd\\_1\\_programme\\_statements\\_web\\_0.pdf](https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/d2022_wd_1_programme_statements_web_0.pdf)



# Next steps

Regarding the next steps, we see areas of specific improvement both at the European and the national level.

It is obvious that in order to achieve climate neutrality by 2050, the ambition of the European Commission regarding climate mainstreaming in all of the EU programmes must be increased.

Our conclusions are consistent with the analysis by the European Court of Auditors which points out a number of problematic aspects of the Commission's methodology. The aim of the European cohesion policy is to transition to a carbon-neutral EU economy. It is therefore a strong contradiction to the policy when our analysis shows that during the programming period 2014–2020, climate-positive coefficients were assigned to projects which go against this trend. These projects mainly involve the use of natural gas; e.g. using gas in order to increase the efficiency of heat supply systems (here the EU approach applies a 100% coefficient), or in replacing old boilers with new gas ones (this has a 40% climate benefit according to the Commission).

The way in which European financing is distributed throughout the operational projects, and the types of projects that are assigned priority, leads to a point where projects causing an increase in greenhouse gas emissions outweigh the positive effects of the remaining projects.

The approach of the EC should therefore be made stricter by the next programming period. EU funding should not be used to finance projects that cause added greenhouse gas emissions and as such are inconsistent with the climate objectives. Given the newly adopted general principle of "do no significant harm", no fossil fuel based projects should be supported by ESI funds in the next budget period.<sup>12</sup>

The Czech Republic should improve the reporting of this data. The relevant information is not currently available to the general public. Managing authorities should be transparent about data reporting related to individual projects in a way that enables and promotes clear analysis and interpretation and shows whether the funds are actually used to finance projects consistent with the climate commitments.

Based on publicly available information, it is apparent that there is no or very little support for renewables in the programmes. Moreover, most of that funding went to biomass and hydropower, both of which are close to reaching their full potential in the Czech Republic, as follows from the joint study by the CEE Bankwatch Network and Friends of the Earth Europe in 2015.<sup>13</sup>

<sup>12</sup> European Commission. Technical guidance on the application of "do no significant harm" [online] [Accessed 10.4.2022]. Available at: [https://ec.europa.eu/info/sites/default/files/c2021\\_1054\\_en.pdf](https://ec.europa.eu/info/sites/default/files/c2021_1054_en.pdf)

<sup>13</sup> Bankwatch and Friends of the Earth Europe. Climate's enfants terribles [online] [Accessed 29.3.2022]. Page 79. Available at: <https://bankwatch.org/sites/default/files/enfants-terribles.pdf>

The potential of wind energy, however, is significant. According to a study conducted at the Institute of Atmospheric Physics CAS, wind power stations in the Czech Republic could be generating up to 18,8 TWh by around 2040, which corresponds to approx. 28% of the national consumption in 2019.<sup>14</sup> At present, wind power stations generate around 1% of the total energy consumption in Czechia.<sup>15</sup>

In the context of the war in Ukraine, the call for restrictions on gas is no longer just an issue of the climate, but also of security. The Czech Republic is heavily dependent on gas imports from Russia.

We should therefore begin to systematically search for solutions such as energy renovation of buildings, utilising residual heat from industrial installations or heat pumps.

Also at the individual level, it is time to turn to greener alternatives. It is highly likely that the geopolitical instability will cause rising energy prices. The popular “boiler grants”, which target low-income groups, should promote only renewable sources for heating, namely biomass boilers and heat pumps.<sup>16</sup>

<sup>14</sup> Institute of Atmospheric Physics CAS. Aktualizace potenciálu větrné energie v České republice z perspektivy roku 2020 [online] [Accessed 29.3.2022]. Page 44. Available at: [https://www.ufa.cas.cz/DATA/vetrna-energie/Potencial\\_vetrne\\_energie\\_2020.pdf](https://www.ufa.cas.cz/DATA/vetrna-energie/Potencial_vetrne_energie_2020.pdf)

<sup>15</sup> Wind Europe. Wind energy in Europe 2021 Statistics and the outlook for 2022–2026 [online] [Accessed 6.4.2022]. Page 11. Available at: <https://windeurope.org/intelligence-platform/product/wind-energy-in-europe-2021-statistics-and-the-outlook-for-2022-2026/>

<sup>16</sup> From April 2022 it is no longer possible to get support for a gas boiler under this scheme.

# Conclusion

This brief aims to critically assess the fulfilment of the climate commitment in the context of the ESI funds, and on the basis of the findings to comment on climate mainstreaming in the context of European public funding. Based on our analysis we observe that the Czech Republic does not use the allocated funds effectively to mitigate climate change. The EU method for monitoring the fulfilment of the climate commitments is inefficient and insufficient. Climate action should become an integral part of the planning process, i.e., a certain amount intended for the particular measure should be secured in the beginning stages of the creation of operational programmes. In current practice, this number is calculated ex-post.

The preparation of operational programmes happens in coordination between the European Commission and the managing authorities without any greater democratic supervision by the civil society, despite the fact that the partnership principle requires the Czech Republic to include the public. Additionally, there is no enforceability whatsoever of decisions taken by the member states under the shared management. The European Commission thus ultimately very often approves operational programmes designed by the governments without questioning their ambition and the role they play in combating climate change and provides funding to projects that are inconsistent with the climate objectives of the EU.