

The Modernisation Fund in central and eastern Europe

Public participation and environmental concerns in the Czech Republic, Poland, Romania and Slovakia



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Executive summary

The Modernisation Fund is a funding programme to support 10 lower-income EU Member States in their transition to climate neutrality by modernising their energy systems and improving energy efficiency. The Modernisation Fund has been in operation since January 2021 and will continue until 2030. Its budget is equal to 2 per cent of the total allowances from the EU Emissions Trading System (ETS) from 2021 to 2030, which amounts to roughly EUR 19 to 25 billion at current prices.

This report covers the four largest beneficiary countries of the Modernisation Fund: the Czech Republic, Poland, Romania and Slovakia. The four countries have each set up different legal and institutional structures to organise their national governance of the funding. The national operators in each country are the Ministry of Energy in Romania, the State Environmental Fund in the Czech Republic, the

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National Fund for Environment Protection and Water Management in Poland and the Ministry of Environment in Slovakia. Unlike with other EU funding instruments, there are no legal requirements for beneficiary countries to consult with a broad range of stakeholders concerning investment proposals. Therefore, out of the four monitored countries, only the Czech Republic has set up a formal body representing the interests of stakeholders outside national and local government.

The Modernisation Fund is an important and necessary mechanism for addressing the energy and climate crises. If governed efficiently with meaningful involvement from stakeholders, the fund has the potential to be an important part of the EU's response to its most pressing crises. However, there are serious concerns in all four countries regarding both climate ambition and stakeholder involvement. All four countries are investing in projects supporting the continued use and extraction of fossil gas. Moreover, there is no legal framework in place to ensure transparency and public participation during the investment selection process. This puts the fund at risk of failing to live up to its promise by locking in the use of fossil gas and by failing to provide local communities with a voice through which they can influence the development of their region.



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What is the Modernisation Fund?

The Modernisation Fund is a funding programme dedicated to supporting 10 lower-income EU Member States in their transition to climate neutrality by modernising energy systems and improving energy efficiency. The scope of the fund is to support investments in:

- Renewable energy
- Energy efficiency
- Energy storage
- Energy networks
- Just transition in carbon-dependent regions

The scope of the Modernisation Fund is limited to EU Member States with a GDP per capita below 60 per cent of the EU average. At present, 10 Member States qualify: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.¹

The Modernisation Fund started operating in January 2021 and will be supporting investments until 2030. Major changes to its functioning are expected in the coming months as part of the revision of the EU ETS. The European Commission has proposed to increase the size of the Modernisation Fund after 2026 by auctioning an additional 2.5 per cent of the total amount of allowances between 2026 and 2030 and to allocate that revenue to Member States with a GDP that is 65 per cent below the EU average. This would extend the geographical scope to Greece and Portugal, along with the 10 original beneficiary countries.²

The budget of the Modernisation Fund is equal to 2 per cent of the total ETS revenues for the 2021 to 2030 period, estimated at roughly EUR 19 to 25 billion, depending on the price of carbon. The four largest beneficiaries of the fund are Poland (43 per cent), the Czech Republic (16 per cent), Romania (12 per cent) and Slovakia (6 per cent). Together, these four countries make up 77 per cent of the total expected investments from the fund.³

Beneficiary Member States are free to decide on the financial instruments they receive (loans, grants, capital injections, guarantee instruments and premiums). Co-financing projects with the support of private or public entities are permissible provided State aid rules are followed and no double funding of projects takes place. Support from the Modernisation Fund can be used alongside other forms of EU support, including from

¹ European Investment Bank, [Modernisation Fund](#), *European Investment Bank*, accessed 21 November 2022.

² Bellona, [Financing the Fit for 2030 package: Modernisation, Innovation and Social Funds spell the EU's recipe for the future](#), *Bellona*, 1 September 2021.

³ Modernisation Fund, [How it works](#), *Modernisation Fund*, accessed 21 November 2022.

InvestEU, the European structural and investment funds (ESIF), the Connecting Europe Facility (CEF) and the Just Transition Fund (JTF).⁴

Investments from the Modernisation Fund are currently split into priority and non-priority sectors with different governance structures and project eligibility criteria. Priority investments can be covered in full by the Modernisation Fund and should make up at least 70 per cent of the total investments of the fund in the beneficiary country. Priority investments fall under the scope of five categories: (1) generation and use of renewable electricity; (2), improvements to energy efficiency; (3) energy storage; (4) modernisation of energy networks; and (5) just transition in carbon-dependent regions. Investments in these categories can include building renewable energy infrastructure, transport, support to start-ups and energy generation.

The non-priority basket covers all investments that qualify for the scope of the Modernisation Fund but fall outside the scope of priority investments. Until now this was mostly used to fund investments in fossil fuels (mainly gas and oil shale). The non-priority sector should make up no more than 30 per cent of the total investments of the fund in the beneficiary country. Non-priority schemes and projects can receive up to 70 per cent of necessary funding from the Modernisation Fund.⁵

Table 1: Priority and non-priority investments for the Modernisation Fund

	Priority investments	Non-priority investments
Scope	<ul style="list-style-type: none"> • Generation and use of renewable electricity • Energy-efficiency improvements • Energy storage • Modernisation of energy networks • Just transition in carbon-dependent regions 	<ul style="list-style-type: none"> • Any other investments in line with the objectives of the Modernisation Fund
Maximum funding	Up to 100 per cent of relevant costs	Up to 70 per cent of relevant costs
Fund allocation	At least 70 per cent of the fund	At most 30 per cent of the fund
Types of investment	<ul style="list-style-type: none"> • Individual investments • Multiannual schemes 	<ul style="list-style-type: none"> • Individual investments • Multiannual schemes

The governance of the Modernisation Fund comprises three main actors: the beneficiary Member States, the European Investment Bank (EIB) and the Investment Committee. Member States are responsible for selecting and submitting project proposals to the EIB and for implementing Modernisation Fund investments on their

⁴The European Commission, [Type of support and synergies with other instruments](#), *The European Commission*, accessed 21 November 2022.

⁵ Modernisation Fund, [Investments](#), *Modernisation Fund*, accessed 21 November 2022.

territory, including through monitoring projects and submitting annual reports on the functioning of the Modernisation Fund in their country.⁶

The EIB is responsible for auctioning allowances under the EU ETS, managing assets, disbursing funding to Member States and assessing the priority or non-priority status of investments based on criteria established in the ETS Directive.⁷

The Investment Committee is a purpose-made body comprising representatives of Member States, the EIB and the European Commission. It meets twice a year to vote on the approval of non-priority proposals and to discuss the general functioning of the Modernisation Fund.⁸

How have the legal and institutional structures guiding the Modernisation Fund been designed in the Czech Republic, Poland, Romania and Slovakia?

Table 2: Modernisation Fund structures in the Czech Republic, Poland, Romania and Slovakia

	National operator	Stakeholder representation	Share of the Modernisation Fund
The Czech Republic	State Environmental Fund	The Modernisation Fund Platform	15.59%
Poland	National Fund for Environment Protection and Water Management	No institutionalised stakeholder representation	43.41%
Romania	Ministry of Energy	No institutionalised stakeholder representation	11.98%
Slovakia	Ministry of Environment	No institutionalised stakeholder representation	6.13%

The Czech Republic

In the Czech Republic, the Modernisation Fund is administered by the State Environmental Fund of the Czech Republic (SFŽP ČR). The SFŽP ČR is responsible for the preparation of the general programme document, the relevant implementing programmes and other implementing documents, which are prepared in coordination with working teams composed of representatives from relevant ministries at the working level, which are then represented on the Modernisation Fund Committee. Once approved by the Minister of the Environment, the

⁶ Modernisation Fund, [Member States](#), *Modernisation Fund*, accessed 21 November 2022.

⁷ Modernisation Fund, [Governance](#), *Modernisation Fund* accessed 21 November 2022.

⁸ Modernisation Fund, [Investment Committee](#), *Modernisation Fund* Accessed 21 November 2022.

general programme document must also be approved by the government. The implementing programmes are proposed to the Modernisation Fund Committee and then put forward to the ministry.

The committee is an advisory body to the Minister of the Environment. It discusses and recommends proposals made by committee members and deals with basic conceptual, strategic and implementation documents related to the management of the Modernisation Fund.

Unlike other countries, the Czech Republic officially has a body representing the interests of stakeholders outside of the public administration. It is called the Platform for the Modernisation Fund and it serves to exchange information and suggestions between public authorities, the private sector and other entities. The platform consists of members of the committee and representatives of businesses and civic organisations.

On paper, this sounds great, but the reality is not so bright. In theory, the platform should discuss suggestions from its members on key conceptual and implementation materials submitted by the committee and have the opportunity to comment on documentation relevant to the implementation of the Fund in the Czech Republic in a transparent matter. However, the modalities of individual programmes are negotiated behind closed doors only with selected stakeholders. Furthermore, the non-governmental sector in particular has been struggling to receive the relevant information on time. For example, this year, the ministry decided to call a meeting of the platform after the conditions of calls for the new schemes had already been decided, providing very little opportunity for green non-governmental organisations to push through any modifications. The authorities should ensure access to information on projects prior to their approval. One ongoing issue is that the platform's meetings have a very precise structure, mainly consisting of presentations from officials representing the authorities. There is very little space to raise critical questions about the functioning of the fund and provide suggestions.

Poland

Governance structure

The governance structure of the Modernisation Fund in Poland is outlined in the ETS law of 12 June 2015 (as amended), in line with the ETS Directive and the implementing regulation specifying the instrument's rules of operation. According to the law, the National Fund for Environment Protection and Water Management (NFOŚiGW) is the national operator, and the minister responsible for climate oversees the implementation of the Modernisation Fund in Poland. In addition to this, the Modernisation Fund Consultative Council has been created as an advisory body to the climate minister.

Modernisation Fund investments (both priority and non-priority ones, according to the implementing regulation terminology) are implemented through the NFOŚiGW's 'priority programmes'. The NFOŚiGW manages the Modernisation Fund across three levels of administration (art. 50e of the ETS law): the supervisory board, the managing board and the NFOŚiGW's office. The supervisory board sets out criteria for investments and rules of loans and grants under Modernisation Fund programmes. It also approves lists of priority programmes that will be proposed for financing to the EIB. The managing board, among other tasks, prepares an indicative list of programmes (investment schemes) for a two-year period, prepares priority programmes for

ministerial approval and submits those approved by the minister to the EIB. The NFOŚiGW office takes care of day-to-day operation of the Modernisation Fund and relations with the EIB, organises public consultations for priority programmes and is responsible for their implementation. The office is also tasked with monitoring the fund's implementation and supervising investments realised under priority programmes. It should also perform promotional and informational activities related to this instrument.

The ETS law does not require the climate minister or the national operator to prepare a long-term strategy for the Modernisation Fund, which would include planned greenhouse gas emissions reductions, a rough timeline of investments and impact assessments. This would show the Modernisation Fund in a wider context of financial instruments supporting central and eastern European countries and identifying synergies or loopholes in financing. Although the indicative list of investments for the two-year period should be updated yearly (art. 50p p. 1 of the ETS law) and at least provide an impression of Poland's priorities for implementing this instrument, it has not been published yet. The NFOŚiGW refused to share it on our request; the explanation was that a draft list was submitted by the NFOŚiGW to the Ministry of Climate and Environment, and it cannot be shared without the ministry's approval. This, along with virtually non-existent monitoring, transparency issues, chaotic consultations and a lack of information, has created a worrisome situation in which Poland does not have a comprehensive plan for how to spend over EUR 11 billion (the estimated Modernisation Fund allocation for Poland until 2030⁹) on its green transition. This assumption is partially supported by the climate ministry itself, which admits that it considers the Modernisation Fund an *ad hoc* instrument to top up investments in key areas that are short on funding from other instruments (such as cohesion and recovery funds).

Monitoring

The ETS law does not create a monitoring committee of any kind for the Modernisation Fund. Some monitoring competences were instead entrusted by the ETS law to the office of the National Fund. It should monitor the greenhouse gas reduction effects of the Modernisation Fund's interventions and monitor and supervise beneficiaries' activities. This kind of in-house monitoring suggests that the main focus will be put on beneficiaries, rather than on the national operator itself. Thorough oversight is not likely to be provided by the consultative council either, as its role is purely to provide opinions. According to the ministerial by-law of 28 June 2021, its focus is to consult on proposals for priority programmes/investment schemes prior to their submission to the EIB.

Clarity and transparency concerns

Not only is no public oversight provided for this instrument potentially worth over EUR 11 billion, but Poland has also not developed a transparent and clear procedure for informing the public about the Modernisation Fund's operations.

⁹ Assuming 93 EUR/EUA; the allocation may be higher if the ETS reform increasing the Modernisation Fund budget is adopted. On the [official Polish website of the Modernisation Fund](#), it is estimated that up to EUR 14 billion may be allocated to Poland.

Information is published in an unclear manner on the official website of this instrument,¹⁰ which is a subpage of the NFOŚiGW site on the main governmental portal. Its structure is unclear and important data is missing. For example, of 11 investment schemes accepted by the EIB, only seven are presented on the website under the 'Priority programmes' section, which is the NFOŚiGW's name for investment schemes.

The website does not contain a yearly report on the implementation of the Modernisation Fund; the national operator is supposed to prepare this and submit it to the climate minister by 15 February every year, according to art. 50m p. 1 of the ETS law. It is only available in English on the EIB website. Also, the indicative list of investment schemes has not been published.

Most of the information must be requested as public information, which lengthens the process and requires more effort. Aside from this, data concerning the Modernisation Fund's implementation is missing on the website of the climate ministry, and the fund's operator does not fully respond to questions submitted by email or post.

Finally, the terminology used for defining Modernisation Fund investments makes effective oversight complicated, especially for those not working with EU funding on a daily basis. The European Commission's implementing regulation (art. 2) divides the Modernisation Fund into two streams: priority and non-priority investments. At the same time, the Polish ETS law (art. 50c p. 1) rules that Modernisation Fund investments are implemented as the NFOŚiGW's priority programmes. As a result, those investments that are non-priority according to the Commission's regulation, are presented as 'priority programmes from the non-priority area' or called for simplicity 'priority programmes'.

Consultations

In general, public consultation procedures in Poland are widely criticised for wasting the potential benefits of citizens' feedback. Authorities tend to consider them as a 'tick the box' exercise rather than a chance to engage different stakeholders in providing input into legislation or public policies. In this respect, the Modernisation Fund is no different. In most cases, consultations were held only after the investment scheme was approved by the EIB, narrowing the space for possible adjustments. No major changes are possible at this stage, although input from the consultation may still be taken into account in the calls for proposals under these schemes. This is a violation of the partnership principle (legally binding only in the Cohesion Policy, but used as a benchmark across other EU instruments), according to which partners should be involved in every stage of such a document's elaboration.

According to a calculation by the Polish Green Network (PGN),¹¹ consultations for an investment scheme worth several hundred million euros of public funding lasted on average eight business days, and the shortest was four days. Consultations were only announced on the Modernisation Fund's website; no information was posted on the NFOŚiGW's social media channels or included in its newsletter. Only regular examination of the

¹⁰ The Republic of Poland, [Fundusz Modernizacyjny](https://www.gov.pl), gov.pl, accessed 29 November 2022.

¹¹ Sonia Bucholtz and Krzysztof Mrozek, '[Whom to ask how Poland spends billions from the Modernisation Fund?](#)', *Forum Energii*, 23 May 2022.

‘Consultations’ sub-page would inform citizens of their opportunities to provide input. There is also no specification on the website as to whether the consultations refer to an accepted investment scheme or its draft, which has yet to be submitted to the EIB.

Reports from the consultations are not published on the Polish Modernisation Fund website. Not only does this prevent people from checking what inputs have been accepted and introduced into the programmes, but also who has submitted them, further undermining the transparency of this instrument worth billions of euros. In response to our public information request, in which we demanded all reports from the public consultation of each priority programme, the NFOŚiGW shared 14 files, of which 12 were reports from consultations (less than one page long, describing the process and number of inputs in general terms) and two were lists of meetings with stakeholders regarding the investment scheme called ‘The use of alternative fuels for energy purposes’ (waste incineration). Reports concerning two investment schemes approved by the EIB were missing. We also observed and documented cases of content regarding public consultations about investment schemes being removed or antedated on the NFOŚiGW website.

Results of opaque implementation

The lack of an independent monitoring body and proper public oversight has negatively impacted the implementation of the Modernisation Fund in Poland. In its reply¹² to the public information request submitted by Bankwatch, the national operator claimed that the ‘do no significant harm’ principle is provided for Modernisation Fund investment schemes (even though a requirement for the Modernisation Fund to obey the principle has been disputed). At the same time, the fund’s website says that PLN 3 billion (roughly EUR 666 million) has been earmarked for waste incineration (of this, EUR 266.4 million has already been requested). Investments of this kind are not compliant with the ‘do no significant harm’ principle (as they undermine efforts to increase reuse or recycling of waste,¹³ but they were nevertheless prepared, and there was no independent oversight to prevent it or at least request a ‘do no significant harm’ analysis.

Romania

Legal/institutional structure

On 9 March 2022, the Romanian Ministry of Energy launched a public consultation on a government emergency ordinance regarding the legal framework for the implementation of the Modernisation Fund at the national level. The coordination and monitoring of the funds allocated to Romania through the Modernisation Fund will

¹² National Fund for Environmental Protection and Water Management to Polish Green Network, 2 August 2022. (22-573086)

¹³ As explained in European Commission, [Technical guidance on the application of ‘do no significant harm’ under the Recovery and Resilience](#), EUR-Lex, 18 February 2021, 22-23: ‘it is in direct breach of Article 17(1)d(ii) (‘Significant harm to environmental objectives’) of the Taxonomy Regulation. The measure hampers the development and deployment of available low impact alternatives with higher levels of environmental performance (e.g. reuse, recycling), and could lead to a lock-in of high-impact assets, considering their lifetime and capacity. Significant amounts of non-hazardous waste (recyclable and non-recyclable, indistinctively) might be used as feedstock, thus hampering, as regards recyclable waste, treatment ranking higher in the waste hierarchy, including recycling’.

be performed by a supervisory committee established at the level of the Ministry of Energy. The members of the committee will be elected from among the ministry's employees.

Context

There are Romanian proposals for investments in fossil gas, which will hinder the energy transition by locking in fossil gas. Along with two gas-fired units at the Oltenia Energy Complex that expect funding from the Modernisation Fund, many other fossil gas investments are expected to be implemented, such as the extension of fossil gas distribution systems in regions highly dependent on fossil fuels, cogeneration units based on fossil gas and even large offshore gas exploitation activities.

These projects must be evaluated not only in terms of their potential to affect energy efficiency and the economy, but also from the perspective of reducing greenhouse gas emissions. In the context of the conflict in Ukraine and the climate crisis, new gas projects would deepen country's dependence on fossil fuels, and part of this fund will be used to build infrastructure with an average lifespan of no more than 20 years, locking billions of euros into economically unsustainable assets.¹⁴ According to the government emergency ordinance, Romania has allocated over 200 million certificates to this fund, the equivalent of over EUR 13 billion.¹⁵

Moreover, there are many gaps in the eligibility criteria that risk increasing dependence on fossil fuels. The lack of clarity on the definition of 'priority investments' – especially for the modernisation of energy networks, including district heating and electricity networks – leaves the door open for an increase in the share of gas and oil in the energy mixes of countries that are mainly dependent on coal.

This means that beneficiary Member States can make investments, including in fossil fuels, without any obligation to consider whether investments in renewable energy or energy storage and energy efficiency would be more beneficial or more profitable.

Slovakia

The Ministry of Environment leads the Modernisation Fund in Slovakia,¹⁶ whereas the Ministry of Economy is responsible for industry and energy, including heating. The draft investment strategy for the Modernisation Fund¹⁷ has been published for official public consultation but is awaiting final approval.

¹⁴ Frederic Simon and Kira Taylor, '[The Green Brief: Europe's great gas U-turn](#)', *Euractiv*, 16 March 2022.

¹⁵ Explanatory memorandum to the Government Emergency Ordinance for the implementation of the Modernisation Fund: Government of Romania, Nota de Fundamentare - OUG nr.60/04.05.2022, Government of Romania, 4 May 2022.

¹⁶ The Ministry of Environment of the Slovak Republic, [Modernizačný Fond](#), *The Ministry of Environment of the Slovak Republic*, November 2022.

¹⁷ The Ministry of Environment of the Slovak Republic, [LP/2022/219 INVESTIČNÁ STRATÉGIA pre Modernizačný fond – nízkouhlíkový podporný mechanizmus pre obdobie rokov 2021 – 2030](#), *The Ministry of Environment of the Slovak Republic*, 3 May 2022.

The Commission for the Modernisation Fund is composed of five members from the Ministry of the Environment and five members from the Ministry of the Economy of the Slovak Republic.¹⁸ Unfortunately, there is no civil society representation.

According to the Ministry of Environment:

The role of the Modernisation Fund Commission is to carry out activities related to the implementation and setting of conditions for the functioning of the Modernisation Fund in the Slovak Republic in accordance with the Modernisation Fund Implementing Regulation as well as to carry out activities related to the preparation of indicative lists of projects, selection and submission of projects for EIB assessment.¹⁹

The draft investment strategy for the Modernisation Fund also defines the roles of the ministries, as detailed below.²⁰

The Ministry of the Environment of the Slovak Republic:

- Carries out the activities and responsibilities defined for the recipient Member State;
- Chairs the Modernisation Fund Commission, which was established by decision of the Ministry of the Environment of the Slovak Republic;
- Prepares State aid schemes and relevant calls for applications for Modernisation Fund project support.

The preparation and implementation of the projects will require the strengthening of administrative capacities in the Ministry of the Environment and the Environment Fund (technical assistance), which will have to be financed from the state budget. This expenditure cannot be financed by the Modernisation Fund itself. If such technical assistance is not provided on an annual basis, the use of the Modernisation Fund will be jeopardised.

The Ministry of Economy of the Slovak Republic:

- Assists the Ministry of the Environment in the preparation of state aid schemes;
- Prepares and publishes calls for applications for Modernisation Fund project support in selected supported areas;

¹⁸ The Ministry of Environment of the Slovak Republic, [LP/2022/219 INVEŠTIČNÁ STRATÉGIA pre Modernizačný fond – nízkouhlíkový podporný mechanizmus pre obdobie rokov 2021 – 2030](#).

¹⁹ The Ministry of Environment of the Slovak Republic, [LP/2022/219 INVEŠTIČNÁ STRATÉGIA pre Modernizačný fond – nízkouhlíkový podporný mechanizmus pre obdobie rokov 2021 – 2030](#).

²⁰ The Ministry of Environment of the Slovak Republic, [LP/2022/219 INVEŠTIČNÁ STRATÉGIA pre Modernizačný fond – nízkouhlíkový podporný mechanizmus pre obdobie rokov 2021 – 2030](#).

- Ensures the participation of appointed representatives (members) in meetings of the Modernisation Fund Commission.

The projects' preparation and implementation will require strengthening the administrative capacities of the Ministry of Economy and Slovak Innovation and Energy Agency (technical assistance), which will have to be financed from the state budget. This expenditure cannot be financed by the Modernisation Fund itself. If such technical assistance is not provided on an annual basis, the use of the Modernisation Fund will be jeopardised.

The Ministry of Finance of the Slovak Republic:

- In cooperation with the Ministry of Environment and the Ministry of Health, adopt a systematic and permanent solution to ensure the financing of technical assistance for the implementation of support from the Modernisation Fund through State aid schemes or individual projects over 10 years.

Transparency and public participation are currently at a very low level. There are no civil society representatives in the commission for the Modernisation Fund. There is no information available about concept notes submitted for the financing pipeline. Slovakia should improve these and other issues related to transparency and participation.

Are problematic projects receiving funding under the Modernisation Fund?

The Czech Republic

Support for measures within the areas earmarked for funding from the Modernisation Fund will take place through the separate programmes mentioned below. The individual programmes set out a more detailed focus, as well as other specific conditions (such as forms of financing and fulfilment of conditions for public support) that potential applicants and their projects must fulfil. Within the programmes, separate calls for proposals will be launched containing information on how projects will be selected, how they will be evaluated and how they will be administered.

Here is the list of programmes designated for funding by the Modernisation Fund.

Table 3: Czech Republic programmes that will receive funding from the Modernisation Fund

No.	Name of the programme	Abbreviation	Description
1	Modernisation of thermal energy supply systems	HEAT	The programme supports the use of renewable energy sources and low-carbon sources of energy primarily intended for heating, such as a change in the fuel base and modernisation of heat sources and distribution systems.
2	New renewable energy sources	RES+	The programme focuses on support for new non-fuel renewable energy sources.

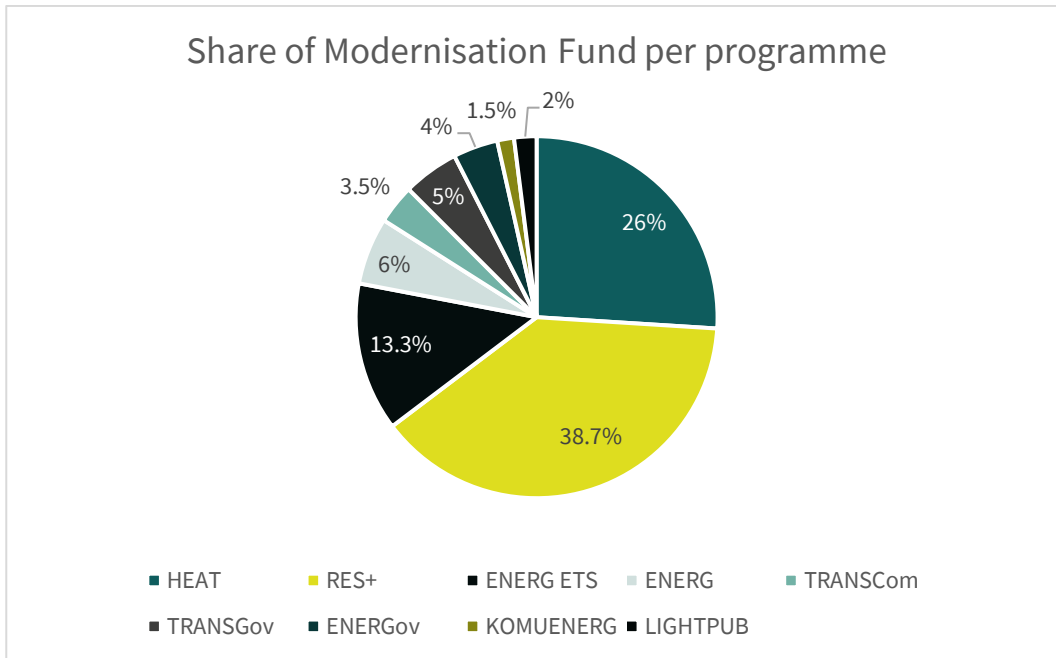
3	Improving energy efficiency and reducing greenhouse gas emissions in industry in EU ETS	ENERG ETS	The programme focuses on support for installations and measures designed to improve energy efficiency and/or reduce industrial greenhouse gas production for installations incorporated into the EU ETS.
4	Improving energy efficiency in business	ENERG	The programme focuses on support for installations and measures designed to improve energy efficiency and/or reduce greenhouse gas production in business (not EU ETS installations).
5	The modernisation of transport in the business sector	TRANSCom	The programme supports the acquisition of alternatively powered vehicles and private infrastructure in business.
6	The modernisation of public transport	TRANSGov	The programme supports the acquisition of alternatively powered vehicles and the construction of infrastructure for public transport intended for public organisations, enterprises with state involvement and public non-commercial and commercial entities that provide public services.
7	Energy efficiency in public buildings and infrastructure	ENERGov	The programme is intended to support comprehensive measures to improve energy efficiency and use renewable energy sources and low-emission energy sources in public buildings, government buildings and public infrastructure.
8	Community energy	KOMUENERG	The programme focuses on support for open energy societies established for the purpose of satisfying their own energy needs (not primarily to generate profit).
9	Modernisation of public lighting systems	LIGHTPUB	The programme focuses on support for the reconstruction and modernisation of public lighting systems, with the option of installing innovative elements.

Source: Eva Mariničová, based on the General Programme Document for Implementation of the Modernisation Fund in the Czech Republic.²¹

²¹ The State Environmental Fund of the Czech Republic, [Programový dokument Modernizačního fondu](#). *The State Environmental Fund of the Czech Republic*, accessed 5 May 2022

In the beginning of November, the Ministry of Environment announced the creation of the new HOUSEnergy programme.²² At the time of writing this report, the specific share in the overall allocation was not known. Below is a breakdown of indicative allocations to individual programmes.

Graph 1: Share of funding each programme will receive from the Modernisation Fund – the Czech Republic



Source: Eva Mariničová, based on the General Programme Document for Implementation of the Modernisation Fund in the Czech Republic.

So far, various schemes have been financially supported, including ones supporting the installation of new photovoltaic power plants or the modernisation of energy production and energy sources.

Table 4: List of confirmed and recommended investment proposals from the Czech Republic

Title of the investment	Type of proposal	Date of confirmation	Requested amount (EUR)
Scheme (part A): support for photovoltaic power plants with installed capacity up to 1 MW, from the RES+ programme	Priority	08/06/2021	39 000 000
Scheme (part B): support for photovoltaic power plants with installed capacity above 1 MW, from the RES+ programme	Priority	08/06/2021	163 000 000

²² Ministry of the Environment of the Czech Republic, [Ministr Jurečka: Vláda schválila využití peněz z emisních povolenek pro usporu energií domácnosti. Nic nebrání tomu, rozjet i NZÚ Light](#), Ministry of the Environment of the Czech Republic, accessed 28 November 2022.

Scheme (part A): modernisation of energy sources priority investments, from the HEAT programme	Priority	12/10/2021	30 000 000
Scheme (part A1): modernisation of energy production priority investments, from the ENERGETS programme	Priority	12/10/2021	30 000 000
Scheme (part A): support for photovoltaic power plants with installed capacity up to 1 MW, from the RES+ programme	Priority	12/10/2021	58 000 000
Scheme (part 1A): modernisation of energy sources to biomass without combined heat and power; non-priority investment from the HEAT programme	Non-priority	07/04/2022	50 000 000
Scheme (part 1C): modernisation of energy sources to natural gas without combined heat and power; non-priority investment from the HEAT programme	Non-priority	07/04/2022	40 000 000
Scheme (part 2A): modernisation of energy sources to biomass without combined heat and power; non-priority investment from the ENERGETS programme.	Non-priority	07/04/2022	10 000 000
Scheme (part 2C): modernisation of energy sources to natural gas without combined heat and power; non-priority investment from the ENERGETS programme	Non-priority	07/04/2022	25 000 000
Scheme (part 2E): modernisation of natural gas energy sources without combined heat and power; non-priority investment from the ENERGETS programme	Non-priority	07/04/2022	5 000 000
Scheme: modernisation of energy sources to natural gas with combined heat and power; priority investment from the HEAT programme	Priority	23/03/2022	50 000 000
Scheme: modernisation of energy sources to natural gas with combined heat and power; priority investments from the ENERGETS programme	Priority	23/03/2022	20 000 000
Scheme: modernisation of energy sources to natural gas with combined heat and power; priority investments of the ENERGETS programme	Priority	23/03/2022	10 000 000
Scheme: municipal PV – small municipalities; priority investment from the RES+ programme	Priority	23/03/2022	50 000 000
Scheme: municipal PV – communal renewable energy; priority investment from the RES+ programme	Priority	23/03/2022	100 000 000

Scheme: modernisation of public lighting; priority investment from the LIGHTPUB programme	Priority	23/03/2022	10 000 000
Scheme (part B): support for photovoltaic power plants with installed capacity above 1 MW, from the RES+ programme	Priority	23/03/2022	150 000 000

Source: Eva Mariničová, based on the Modernisation Fund website.²³

So far, the Czech Republic has received EUR 840 million for these investments. A total of EUR 202 million was disbursed in the first disbursement cycle. In the second disbursement cycle, the EIB made payments of a further EUR 118 million to the Czech Republic. For the third disbursement cycle, the Czech Republic received an additional EUR 520 million.

Solid fossil fuels are excluded from financing from the Modernisation Fund based on article 10d in the ETS directive.²⁴ However, in the current design, there are many loopholes in the eligibility criteria, which risks locking in fossil fuels. That has been the case in the Czech Republic as well. We have seen gas projects being funded under the current setup in the Czech modernisation plan. Let's consider the HEAT programme, which received EUR 30 million: EUR 15 million for calls open to small projects and EUR 15 million for calls open to large projects.²⁵ According to the conditions of the programme, only projects that involve the reconstruction or replacement of heat sources with renewable energy or the use of waste energy are eligible for priority investments. In the case of non-priority investments, fossil gas is allowed as well. In 2021, nine projects received funding from this programme, with two being priority and seven being non-priority. All of these non-priority projects are expected to receive funding for gas infrastructure based on the information available on the State Environment Fund's website.²⁶ It should be noted that all these non-priority investments are related to combined heat and power technology using gas as a fuel. In the summer of 2022, it was announced that projects that focus on conversion to fossil gas with combined heat and power will from now on be considered a priority investment. This change in categorisation was approved by the Investment Committee. As reflected in the table above, three such schemes are currently envisaged for the third disbursement period, accounting for EUR 80 000 000 in total.

The prevalence of investments supporting gas projects is particularly startling given that the programme's main aim is to support the use of renewable and low-carbon sources of energy. According to a representative from the State Environment Fund, it is the issue of supply that needs to match up with demand. At the moment there is a lack of interest from applicants in innovative solutions other than gas. Furthermore, the currently

²³ Modernisation Fund, [Investments](#).

²⁴ European Parliament and the Council of the European Union, [DIRECTIVE 2003/87/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, EUR-Lex](#), accessed 28 June 2022.

²⁵ The State Environmental Fund, [Výzvy Modernizačního fondu](#), *The State Environmental Fund*, accessed 16 June 2022.

²⁶ The State Environmental Fund, [Schválené projekty](#), *The State Environmental Fund*, accessed 20 June 2022.

supported infrastructure should be flexible enough to allow the use of hydrogen or biogas in the future, according to the state official.

As can be seen from the table above, in 2022 it is envisaged that another EUR 150 million will finance gas infrastructure. Fossil gas is directly mentioned in the HEAT and ENERGETS programmes. There are several good projects expected to be financed, including a municipal renewable energy scheme under RES+. However, we cannot ignore the prevalence of support for gas infrastructure. In the case of RES+, another problematic aspect is that 60 per cent of the allocation from this programme will go to existing large electricity producers. These are the 10c entities, which are part of the EU ETS. Giving priority to large players at the expense of small applicants jeopardises the decentralisation of the Czech energy market.

Coming back to the envisioned plan in the Czech Republic, another problematic aspect is that there is very little support for energy communities. As can be seen in the chart above, in the beginning, the programme envisages only 1.5 per cent of the overall allocation, even though an analysis of the energy sector's needs by the International Climate Fund recommended that it should receive 4 per cent of the funding.²⁷ After pressure from civil society organisations demanding at least four per cent, the Ministry of Environment did increase support for renewable energy communities by allowing them to participate in the two largest programmes of the Modernisation Fund: HEAT and RES+. Beyond the KOMUENERG programme, municipalities and the organisations that contribute to them are therefore able to apply for subsidies for renewable energy sources under ENERGOV, for the modernisation of public transport under TRANSGOV and for the modernisation of public lighting under LIGHTPUB.

Within the framework of RES+, it is now possible to support the construction of photovoltaic power plants in smaller municipalities to kickstart the development of community energy. This scheme has been already approved by the Investment Committee, with new calls launching in the summer of 2022.

Conclusion

The Czech Modernisation Fund is not ambitious enough. When assessing the rollout of the plan, it is more appropriate to talk about preservation rather than modernisation. Support for gas infrastructure is very high, and even though renewable energy is being financed as well, it would be too ambitious to claim that the fund will indeed lead to the modernisation of the country's energy systems and improve energy efficiency in the long run.

Poland

Poland and the EIB have agreed to 11 investment schemes thus far, with an overall budget of EUR 2.9 billion. The Polish government has already requested EUR 590.6 million of this amount.

²⁷ Enviweb, [Support for community energy to be low](#), Enviweb, accessed 8 December 2022.

Table 5: List of confirmed and recommended investment proposals from Poland (potentially problematic investment proposals marked in red)

No.	Title of the investment	Area	Amount already requested (EUR)
1	Smart energy infrastructure	Priority	44 000 000
2	Renovation with a guarantee of savings	Priority	25 000 000
3	Development of the power grid for future electric car charging stations	Priority	22 000 000
4	Support for the use of storages and other devices for network stabilisation – a scheme for DSOs	Priority	44 440 000
5	Cogeneration for energy and industry	Priority	44 440 000
6	Cogeneration for district heating	Priority	66 600 000
7	The use of alternative fuels for energy purposes (with extension in the third tranche)	Priority	266 400 000
8	Digitisation of heating networks	Priority	33 300 000
9	My heating	Non-priority	22 222 222
10	Energy-intensive industry – improving energy efficiency	Priority	11 110 000
11	Energy-intensive industry – renewable energy sources	Priority	11 110 000
			590 622 222

Source: Krzysztof Mrozek, based on the Modernisation Fund website.²⁸

According to the NFOŚiGW website, at the fourth Modernisation Fund Investment Committee meeting (25 October 2022) another four Polish investment schemes were approved.²⁹ Three of them are priority investments (cogeneration with biogas, renewables in rural areas, cogeneration on county level) and one is non-priority (renewables for district heating). Altogether they amount to approximately EUR 1.2 billion, and one investment scheme – cogeneration at the county-level – allows for the use of fossil gas. To date (25 November 2022), no information about these investment schemes has been published on the Modernisation Fund website.

Three of 11 analysed investment schemes (worth EUR 377.4 million of EUR 590.6 million overall) raise concern regarding their compliance with the Modernisation Fund's goal to modernise energy systems and improve

²⁸ Modernisation Fund, [Investments](#).

²⁹ Republic of Poland, [IV posiedzenie Komitetu Inwestycyjnego Funduszu Modernizacyjnego](#), gov.pl accessed 25 November 2022.

energy efficiency by investing in areas listed in article 10d(2) of directive 2003/87/EC, such as: renewable energy, energy efficiency, energy storage, energy networks and just transition in carbon-dependent regions. They are marked red in the table above.

Two of them are investment schemes for highly efficient cogeneration (combined heat and power) with the possible use of fossil gas, with an estimated overall budget of EUR 1.11 billion until the end of 2030 (subject to final request from the beneficiary Member State).

The first one, cogeneration for energy and industry (EUR 444 million in total, of which EUR 44 million has already been requested), allows for a mixture of so-called low-emission gases like synthetic gas and hydrogen, which can include fossil gas and hydrogen made using gas. The second, cogeneration for district heating (EUR 667 million in total, of which EUR 66 million has already been requested), is open to any 'gas fuel' (along with renewable energy sources and waste heat) in newly built or renovated combined heat and power installations larger than 10 MW. This will likely result in fossil gas projects (depending on the results of calls for proposals, which are announced on the Modernisation Fund's website in a non-transparent way), benefiting enterprises in the energy sector (of no less than 50 MW installed power). Energy storage projects connected to these combined heat and power units are also eligible for funding.

Another programme, the use of alternative fuels for energy purposes³⁰ (initially planned for EUR 222 million in total, but extended in the first cycle to EUR 666 million, of which EUR 266.4 has already been requested), also targets enterprises and supports the construction, expansion or modernisation of waste incinerators using combined heat and power technology (powered with 'waste or alternative fuels produced from residual waste'³¹). Waste incineration is not eligible for EU funding under the cohesion or recovery funds, and such investments were removed from the Polish recovery plan during public consultation. It is surprising to see that these have passed the EIB's scrutiny process within the Modernisation Fund framework, as one can hardly argue that they reduce emissions.

Poland is among the leaders in terms of the value of approved proposals, together with the Czech Republic and Romania. Several investment schemes are in line with the Modernisation Fund's goals and will contribute to the green transition. However, most of the funding earmarked thus far will finance fossil gas investments or waste incineration, which contradict climate action priorities. Furthermore, a lack of public scrutiny over the drafting of investment schemes and façade consultations, as well as a lack of independent monitoring of implementation (in the form of a monitoring committee or similar, with the participation of various stakeholders and experts) raise concerns. Although there is no publicly accessible general strategy for the implementation of the Modernisation Fund in Poland until 2030 and short-term plans such as an indicative list of projects are not published (despite the fact that each Member State is obliged to prepare this and submit it to the EIB), the potential for boosting the energy transformation with more than EUR 11 billion may be wasted. After 1.5 years of the fund being active in Poland, it has become clear that investment schemes favouring large

³⁰ Formally, there are two investment schemes under this name, Modernisation Fund 2021-2 PL 0-004 and Modernisation Fund 2022-1 PL 0-007.

³¹ Project description, point 7.5 'Types of intervention'. National Fund for Environmental Protection and Water Management, [Wykorzystanie paliw alternatywnych na cele energetyczne](#), National Fund for Environmental Protection and Water Management, accessed 29 November 2022.

energy enterprises or those not eligible for funding under other EU instruments are being prioritised. It is virtually impossible to prevent this when decisions are made behind closed doors.

Meanwhile, Poland desperately needs to modernise its large-scale distribution networks to prepare them for the growing share of renewable energy. Also, reskilling support for coal regions in transition is urgently needed. Such projects are not being put forward.

Romania

According to the government emergency ordinance, the funds allocated through the Modernisation Fund should finance nine priority sectors structured across eight key programmes, a large part of which could be classified as non-priority according to the criteria set out in the directive.

Table 6: Key programmes – Romania

No.	Name of the programme	Description
1	Renewable energy sources and energy storage	Supports the construction of new power plants and heating-cooling systems based on renewable energy sources and the construction of energy storage capacities
2	Replacement of coal and grid balancing	Supports the construction of combined-cycle gas turbine power plants, which can be adapted for hydrogen and are necessary to achieve the transition from coal and balance the grid
3	Modernisation and construction of new energy infrastructure segments	Supports the modernisation and construction of new electricity and fossil gas transport and distribution network sections (including for transitioning fossil gas transport and distribution networks to hydrogen) and aims to increase the level of interconnectivity of the electric transmission network
4	Green hydrogen	Supports the production of green hydrogen and its use in industrial applications, aiming to reduce greenhouse gas emissions
5	High-efficiency cogeneration and modernisation of district heating networks	Supports the modernisation and construction of high-efficiency cogeneration plants and the modernisation of district heating networks
6	Nuclear energy	Supports the construction of units 3 and 4 of the Cernavodă nuclear power plant and the construction of small modular reactors
7	Energy efficiency in industrial facilities included in the EU ETS	Supports the installation of carbon capture, usage and storage facilities and the modernisation of EU ETS facilities for steel,

		cement, oil and fossil gas, power generation and other polluting industries
8	Biofuels	Supports the production of biofuels

Two state-owned companies (OEC and Transelectrica) applied for financing from three out of the eight key programmes. OEC has submitted eight projects for Modernisation Fund financing, all involving the production of energy from renewable sources by building new photovoltaic parks with a total production of 735 megawatts (MW) and a total value of over EUR 670 million. Of this amount, almost EUR 470 million comes from the Modernisation Fund. OEC also has two other projects involving two new gas power plants with a total capacity of 1,200 megawatts (MW) and a total value of over EUR 841 million, from which a little over EUR 420 million comes from the Modernisation Fund. Projects submitted by Transelectrica amount to over EUR 475 million, of which around EUR 393 million come from the Modernisation Fund. These projects consist of overhead power lines and their optimisation, the installation of two modern means of compensating the reactive power at Sibiu Sud and Bradu stations, and other projects that improve electrical power lines. Funds have also been approved for the modernisation of electricity distribution networks. In total, 17 projects have been confirmed as priority by the EIB and two non-priority projects recommended by the investment committee for financing, totalling EUR 1.4 billion.³²

Table 7: List of confirmed and recommended investment proposals from Romania

Title of investment	Type of proposal	Requested amount (EUR)
Construction of a natural gas-fired combined cycle power unit of approximately 475 MW at Turceni	Non-priority	167 504 815
Construction of a natural gas-fired combined cycle power unit of approximately 850 MW at Işalniţa	Non-priority	253 125 302
Construction of an 85 MW photovoltaic park on the ash and slag closed deposits of SE Işalniţa	Priority	53 432 006
Construction of an 83.35 MW photovoltaic park on the ash and slag closed deposits of SE Rovinari	Priority	51 187 936
Construction of a 111.68 MW photovoltaic park on the ash and slag closed deposits of SE Turceni	Priority	70 407 657

³² The Romanian Ministry of Energy, [Aproximativ 1,4 miliarde de euro din Fondul de Modernizare pentru finanţarea unor proiecte strategice în sectorul energetic din România](#), The Romanian Ministry of Energy, 7 April 2022.

Construction of a 131.67 MW photovoltaic park on the inner waste pile Tismana 2 at Rosia-Rovinari open pit mining unit	Priority	80 750 467
Construction of a 128.3 MW photovoltaic park on the inner waste pile within Tismana 1 at Rosia-Rovinari open pit mining unit	Priority	80 084 542
Construction of a 19.21 MW photovoltaic park on the Bohorelu waste pile at Jilt open pit mining unit	Priority	12 933 740
Construction of a 65.78 MW photovoltaic park on the waste pile at Pinoasa open pit mining unit	Priority	47 902 281
Construction of a 110 MW photovoltaic park on the waste pile at Rovinari Est open pit mining unit	Priority	72 863 317
Conversion to 400 kilovolts (kV) of the Brazi Vest-Teleajen-Stâlpu overhead power line	Priority	51 067 426
Digitalisation of the electricity transmission network in Romania by installing two online systems: one for metering and data management for measuring electricity consumption on the wholesale electricity market and one for monitoring the quality of electricity	Priority	18 251 593
Installation of two modern means of compensating reactive power in the 400/220/110/20 kV Sibiu Sud and 400/220/110/20 kV Bradu substations	Priority	52 336 143
Internal line between Reşita and Timișoara/Săcălaz (PCI 3.22.3.), consisting of a new 400 kV Reşita-Timișoara/Săcălaz overhead power line and retrofitting of the 110/2020 kV Timișoara substation to 400 kV	Priority	63 610 824
Optimising the operation of the existing 400 kV overhead power line in NPS (SEN), used for interconnection and power output from Cernavodă nuclear power plant and the renewable-energy power plants in Dobrogea, by installing online monitoring systems (smart grid)	Priority	10 475 032
Pilot project: refurbishment of the 220/110/20 kV Alba Iulia station into a digital concept station	Priority	46 956 109
Support for the expansion and modernisation of the electricity distribution network	Priority	100 000 000

Building a new 400 kV double-circuit overhead power line from Constanța Nord to Medgidia Sud (one circuit equipped)	Priority	22 992 330
Building a 400 kV overhead power line from Timișoara/Săcălaz to Arad	Priority	57 506 448
Building a new 400 kV single-circuit overhead power line from Gădălin to Suceava, including its interconnection to the national power transmission system	Priority	101 208 938

The fossil gas investments approved for finance will have a negative impact on the environment and will deepen Romania's dependence on fossil gas, especially given the current critical geopolitical and energy contexts. Increasing investment in the fossil gas sector represents a long-term financial risk and will not ensure energy independence.

Fossil gas is an increasingly unreliable, volatile and expensive source of energy, and the continued use of this fossil fuel will lead to a slowdown in the decarbonisation process at a time when it is even more necessary to accelerate the transition to clean energy based on renewable energy sources, digital and storage technologies and energy efficiency. Given that the share of fossil gas in electricity production will reach the level of 14 per cent in 2030, down from 19 per cent in 2020, according to the estimates of the national energy strategy, financial and investment efforts must be directed to those sectors that can contribute in a real way to the decarbonisation of the energy sector and to the exploitation of Romania's renewable potential.

Slovakia

The EUR 2.6 billion allocation³³ from the Modernisation Fund, if used wisely, could be the most significant decarbonisation funding stream for Slovakia by 2030.

The draft investment strategy for the Modernisation Fund and the proposed roadmap for the preparation of State aid schemes and support for individual projects will be updated.³⁴

³³ A more recent estimate is EUR 3.89 billion in allocations for Slovakia by 2030.

³⁴ The Ministry of Environment of the Slovak Republic, [LP/2022/219 INVEŠTIČNÁ STRATÉGIA pre Modernizačný fond – nízkouhlíkový podporný mechanizmus pre obdobie rokov 2021 – 2030](#).

Table 8: Investment proposals for the Modernisation Fund – Slovakia

Investment proposal (scheme/individual project)	Deadline for submission to the EIB	Amount of allocation foreseen
State aid scheme for the heating sector (combined heat and power, and distribution): ‘State aid scheme from the Modernisation Fund to support investments for the modernisation of energy systems, including energy storage and energy efficiency improvements’	11/05/2021 31/08/2021 <i>(12/10/2021 – confirmed as a priority)</i>	EUR 100 million/year EUR 1 billion for 2021-2030 with an allocation of EUR 150 million for the first two years
State aid scheme for the support of electricity production from new renewable energy sources: ‘State aid scheme from the Modernisation Fund for the support of electricity production from renewable energy sources’	11/05/2021 31/08/2021 <i>(12/10/2021 – confirmed as a priority)</i>	EUR 40 million/year EUR 400 million for 2021-2030
State aid scheme for improving energy efficiency and reducing emissions in industry	Quarter 3, 2022	Proposed EUR 1 billion for 2022-2030
State aid scheme / individual projects to support the production of heat from renewable energy sources	Quarter 1, 2023 / quarter 2, 2023	Not yet determined, will depend on the type of State aid and the investment needs
State aid scheme / individual projects to improve energy efficiency in hydropower plants	Quarter 4, 2022 / quarter 1, 2023	Not yet determined, will depend on the type of State aid and the investment needs

In general, it is not clear how EU funding is divided among funds and responsible ministries; this creates extra work for local and national experts and stakeholders to submit their concept notes or projects multiple times. The Ministry of Environment also rightly states:

When financing priorities in the field of energy and environment, it is also necessary to take into account the possibilities of financing projects through available EU instruments (structural funds, the recovery and resilience plan and the Just Transition Fund) and to set up an appropriate communication channel and method of information exchange between the

competent national authorities in the Slovak Republic for the above-mentioned support mechanisms to avoid the situation that some investment plans will be proposed for duplication of funding and, on the contrary, other investments will be forgotten.²⁰

A government authority, ideally above the ministries, should coordinate financing decarbonisation efforts from multiple funds.

First call for proposals

Unfortunately, the first call for proposals³⁵ has not been published on the Ministry of Environment's official Modernisation Fund website, nor has it been promoted.³⁶

The value of funds available for 2022 under the scheme (total budget) is EUR 149.5 million.³⁷ The purpose of the aid is to promote investment in high-efficiency cogeneration plants and heat distribution systems for efficient district heating.

A highly controversial exemption for high-efficiency cogeneration plants based on fossil gas could be supported if existing cogeneration plants are replaced. A shift from coal to biomass and/or fossil gas without significant energy savings and a decarbonisation plan should not be supported by EU finances. Large district heating systems with dozens of megawatts of installed capacity might continue their dependence on burning fuels in an unsustainable way.

There is a risk that the ministries will select projects that increase dependence on fossil gas and unsustainable biomass. There are several reasons for this, including:

- Slovakia has a conservative heating sector and an underdeveloped renewable energy sector.
- Both ministries lack capacities to plan and implement funds from the Modernisation Fund, as they disclosed directly in the investment strategy.³⁸
- Slovakia lacks a vision for ambitious modernisation in the district heating and cooling sector without fossil gas and the extensive use of biomass.
- Slovakia is traditionally one of the worst EU countries in terms of support for science, with a meagre share of its total expenditures spent on research and development.

³⁵ Envirofond, [Modernizačný fond](#), *Envirofond*, accessed 21 November 2022.

³⁶ The Ministry of Environment of the Slovak Republic, [Modernisation Fund](#).

³⁷ Envirofond, [Výzva pre Modernizačný fond 2022](#), *Envirofond*, 26 July 2022.

³⁸ The Ministry of Environment of the Slovak Republic, [LP/2022/219 INVESTIČNÁ STRATÉGIA pre Modernizačný fond – nízkouhlíkový podporný mechanizmus pre obdobie rokov 2021 – 2030](#), 13.

Therefore, environmental organisations and energy experts recommend that:

- Renewable-energy-based district heating systems that heat buildings and plants with optimised heat demand should be the target. The Modernisation Fund's support must not prevent the achievement of this target.
- Priority should be given to projects that move towards low-temperature heat supply systems, both as individual projects or elements of larger projects.
- Support for crop-based biogas plants (including energy crops and catch crops) should be excluded. Hydrogen production facilities from renewable energy sources should only be supported in cases where there is no more favourable alternative.
- In the field of commercial heat production, the replacement of fossil fuel combustion in combined heat and power – instead of replacement it with coal – should be supported.
- Dendromass technologies should be forced to comply with the criteria for the sustainable use of dendromass for energy purposes in Slovakia, which are valid from 2021 to 2027.³⁹ The criteria outlined in the strategic environmental assessment – annex 4⁴⁰ should also ideally be taken into account.

Conclusions and recommendations

In all four countries covered by this publication, there are serious concerns that the Modernisation Fund is being used to lock in fossil fuel dependency beyond timeframes compatible with the EU's climate targets for 2030 and 2050. Projects aiming to build or extend fossil gas infrastructure have been approved in Romania, Poland, the Czech Republic and Slovakia, and in Poland a waste incineration project has received support.

There are also major issues regarding monitoring, transparency and stakeholder inclusion. Out of the four countries, only the Czech Republic has any provisions for formal stakeholder inclusion at all. In the Czech case, there is a platform with stakeholder and non-governmental organisation involvement, but it consists mainly of one-way communication from the national authorities, leaving little room for real influence.

Low levels of transparency, a lack of national implementation strategies until 2030 and the EIB's readiness to accept investment schemes clearly not in line with green transition priorities increase the risk that billions of euros of ETS revenues earmarked for the Modernisation Fund will be wasted instead of boosting energy transformation. In a time of growing energy and climate crisis and an accelerating phase-out of fossil fuels due to the Russian invasion of Ukraine, the Modernisation Fund could become a catalyst for clean energy

³⁹ KPMG Slovensko, [Kritériá udržateľného využívania biomasy v regiónoch Slovenska programy SR na obdobie 2014 - 2020 spolufinancované z EŠIF - so zameraním na drevnú biomasu](#), *Operational Programme Environmental Quality*, September 2016.

⁴⁰ Ministry of Economy of the Slovak Republic, [Vymedzenie rozsahu a obsahu kritérií udržateľného využívania drevnej biomasy na energetické účely pre Program Slovensko 2021 – 2027 \(návrhy a odporúčania\)](#), Annex 4 from Slovakia's National Energy and Climate Plan (2021-2030), *Ministry of Investments, Regional Development and Informatization of the Slovak Republic*, accessed 29 November 2022.

deployment. Instead, it is becoming a last chance source of funding for investments that are not eligible for cohesion or recovery funds.

The ongoing revision of the ETS directive provides an opportunity to address several of the legal loopholes discussed in this publication. At the national level, operators must improve transparency and allow for effective external monitoring.