Deliverable 4

Report on Public Policy Options on Sustainable Finance, Action Plan and Roadmap for Implementation

TSIC-RoC-19846
REFORM/2021/OP/0006 Lot 1

January 31, 2025

Assignment was carried out with funding by the European Union via the Structural Reform Support Programme and in cooperation with the Directorate General for Structural Reform Support of the European Commission

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Executive Summary

Though sustainability includes multiple dimensions, the decarbonisation aim of the Czech economy is the most urgent one. In Czechia, the consequences and costs of global warming are already clearly noticeable. The average temperature has risen by almost 2 °C since 1880[1]. More frequent weather fluctuations and extreme meteorological events are having a significant impact on communities. **The cost of decarbonisation by 2030 is estimated at EUR 114 billion in total, of which EUR 61 billion should be funded by the private sector as suggested in recently updated National Energy and Climate Plan (NECP) and State Energy Policy (SEK) and Climate Protection Policy (POK) draft update documents[2].**

The purpose of this Deliverable 4: Report on public policy options on sustainable finance, action plan and roadmap for implementation (Recommendations Report) is to propose recommendations leading to better access to finance options for economic agents and projects bearing the above-mentioned decarbonisation cost. Recommendations Report indicates timelines, actors, and next steps in order to serve as a starting point for the implementation phase of the recommendations.

The Recommendations Report builds on the challenges identified in the Deliverable 3: Diagnostic Report (Diagnostic Report). In particular, **Czechia has to address key issues including need for better quality and quantity of Environmental, Social and Governance (ESG) data, improved risk management, and enhanced transparency in public finance. It stresses aligning Czech practices with EU standards, particularly the EU Taxonomy, to ensure the consistency and credibility of sustainable investments**. Based on the key findings of the Deliverable 2: Good practices report from other national sustainable finance strategies (Good Practice Report), the presented recommendations also **call for a supportive environment for innovative financial instruments and/or products and assistance, institutional platforms for sustainable finance, and the development of comprehensive national finance roadmaps and action plans**.

The recommendations aim at concerted effort of public sector authorities and private sector financial investors and enterprises in achieving the climate and environmental objectives. The recommendations also show how the public and private sector could transform the high-level EU or nation-wide targets in the fields such as renewable energy, energy efficiency or circular economy into concrete actions that help foster and accelerate funding, preparation, implementation and reporting of EU Taxonomy or other sustainability standards aligned projects.

The following figure shows the intervention logic of the recommendations presented in this Report.

[1] https://earthobservatory.nasa.gov/world-of-change/global-temperatures

[2] On December 18, 2024, the Czech government approved the update of NECP targets, but did not discuss the related update of SEK and POK.

Figure 1: Thematic and Sectoral Pillars of Sustainable Finance Recommendations

In achieving the volumes of decarbonisation investment as indicated above, it is essential to mobilise private capital as the public sector cannot manage these investments alone. Private capital should seize opportunities to ensure sustainable growth in Czechia while avoiding market distortions and preserving financial market stability. However, the current investment environment does not yet provide sufficient guarantees that the decarbonisation investments required in Czechia can be supported with sufficient private capital. **The role of the state authorities and regulators is to enable these investments by providing coordinated guidance, financial support and clear regulatory frameworks.**

Public Sector-Related Recommendations

In the public sector, a four-year roadmap for sustainable finance framework development at the state budget level is laid-down in the report **enabling efficient sustainable public procurement and performance-based budgeting in the first phase** and later also green spending reviews in the second phase and eventually a green bond framework in the third phase. Regions and municipalities should also be part of the process.

Investment in sustainable infrastructure such as railways should be accompanied with appropriate frameworks for management and funding options of strategic projects and adequate planning, implementation and reporting capacities. The two-year recommendations roadmap includes **setting a 'major projects authority' coordinating planning, funding, management and implementation of strategic investments. The recommendation is to facilitate green and sustainability-linked bonds frameworks for major projects funded by the State Fund for Transport and the state-owned entities like Správa železnic and state-owned enterprises** or to use evidence-informed approach to decisions on infrastructure delivery models (traditional procurement, design-build, PPP, etc.).

Beside that, it is important to support research and development mainly of technologies enabling decarbonisation and other e.g. by aligning the selection criteria of R&D grant programmes with the sustainability-aligned priorities.

Promoting Sustainability-Aligned Investment in Non-Financial Undertakings

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The recommendations towards the non-financial undertakings, are oriented mainly on incentivisation to accelerate investing in sustainability. **The report presents two years roadmaps to improve and focus the support on renewable energy generation, energy efficiency and clean mobility by amending existing legislation, providing financial incentives and improving framework for financial instruments implemented by National Development Bank and the state funds.** These instruments can also support development of sustainable finance and transition finance products by providing EU Taxonomy-aligned guarantees, preferential loans and other incentives.

Sustainable Finance Framework and Governance

The Sustainable Finance Platform (SFP), coordinated by the Ministry of Finance, should be institutionalised according to the presented roadmap to link sustainability goals with investments. SFP should exchange ideas and implementation of sustainable finance framework among different sectors, be it in terms of overcoming data issues or other aspects (capital flows monitoring, etc.). **The SFP should serve as a permanent body of various stakeholders to promote effective instruments and techniques to unlock finance necessary for decarbonisation and other sustainability-related activities and investments in both public and private sectors. SFP focuses on building a sustainable finance ecosystem to ensure national sustainability targets are ambitious and achievable in terms of finance**.

Sustainable Finance Data and Risk Management

The recommendations roadmap in the field of data and risk management includes **development of a national ESG data and information governance system with a special focus on climate change that should leverage existing government institutions data and enhance significantly their availability, accuracy and extent** to enable financial institutions and non-financial undertakings to create benchmarks for their risk assessment models and decarbonisation strategies.

The recommendations also include suggestions for **Czech National Bank to develop methods and guidance to limit and monitor climate and environmental risks in financial institutions**.

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Introduction

This report has been produced as part of a Technical Support Instrument (TSI) project titled 'Sustainable Finance Policy Options', (REFORM/2021/OP/0006 Lot 1, TSICRoC-19846) funded by DG REFORM. The main beneficiary of the project is the Czech Ministry of Finance (MoF).

The relevant recommendations across the sustainable finance domain are put forward in the following chapters of the report. They are complemented by suggestions for concrete actions and associated implementation and monitoring frameworks as included in Annex 1 Sustainable Finance Roadmap and Action Plan. The recommendations roadmap and action plan were developed in line with methodology of International Financial Corporation (IFC) facilitated by Sustainable Banking and Finance Network (SBFN)[3]. Legislative and standardisation measures are further elaborated in Annex 2 Regulatory Implications.

In addition to an outline of activities that are to be taken, each recommendation in the following chapters includes a description of the content, delivery schedule of the action and authorities responsible for its implementation. The implementation of the proposed recommendations should be coordinated by the Sustainable Finance Platform led by the Ministry of Finance. At the beginning of each recommendation, there is a reference to connected challenges and risks identified in the preceding Diagnostic Report. The recommendations roadmaps include timelines in months since the submission of this Recommendations Report.

By leveraging the existing practices in other EU Member States, the report offers insights and actionable recommendations to advance sustainable finance in Czechia. These steps aim to support environmental sustainability, economic stability and social equity, aligning with Czech long-term development goals and international commitments, like the Paris Agreement.

A comprehensive examination of sustainable finance practices across seven EU Member States – Austria, Ireland, Italy, France, Lithuania, Germany, and the Netherlands – reveals a diverse array of approaches, challenges, and innovations. This review, as documented in the Good Practices Report, highlights significant variations in national methodologies, underscoring a lack of standardisation across borders. The report identifies the unique challenges these countries face, noting that they extend beyond conventional economic, business, and political cycles, making them *sui generis*. The key findings emphasise several critical areas:

1. The role of Ministries of Finance, central banks, and development banks in advancing sustainable finance.
2. The development and adaptation of national sustainable finance roadmaps and action plans.
3. The institutionalisation of Platforms for Sustainable Finance.
4. Progress in harmonising the EU Taxonomy and other sustainability standards.
5. Support for green bonds and the issuance of innovative financial products.

This comparative analysis provides a deeper understanding of the statutory and sub-statutory provisions that drive the advancement of sustainable finance in EU Member States, focusing on the legal frameworks that foster innovation and regulatory support in this sector.

[3] https://www.sbfnetwork.org/sbfn-toolkit-developing-sustainable-finance-roadmaps/

Germany, the Netherlands, Italy and Austria demonstrate strong commitments to sustainable finance, reflected in their comprehensive statutory frameworks. The legal systems in the states combine innovative financial instruments, such as green bonds, with rigorous reporting obligations and regulatory oversight. Their national laws are aligned with broader EU regulations, such as the EU Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR), as further described in the preceding reports of this project, while also tailoring solutions to meet each country's specific climate and sustainability objectives. This robust legal infrastructure positions these countries to attract international investment, reinforcing their role in promoting long-term environmental and social sustainability.

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1 Public Sector-Related Recommendations

Czechia exhibits delayed and limited activity in sustainability, primarily focusing on EU legislation transposition without timely implementation or a cohesive national strategy, affecting the private sector's clarity and long-term planning ability. The national framework for sustainable finance is practically missing, lacks coordination and proactive collaboration. The absence of a systematic approach to climate change and transitioning to a low-carbon economy could lead to higher debt service costs and reduced market financing. Additionally, declining fossil fuel tax revenues and new reporting requirements for environmentally harmful subsidies highlight the need for more detailed state expenditure disclosures in environmental contexts.

The recommendations in this chapter address challenges and risks in the Diagnostic Report identified in part 4.3 Public Sector.

1.1 Addressing Sustainable Finance in the State Budget

This chapter delves into the strategic measures and recommendations aimed at enhancing the sustainability and fiscal resilience of the Czechia through building a comprehensive green spending review, which can later develop into a sovereign green bond framework. It addresses the removal of barriers to the EU Taxonomy-aligned investments, it explores the challenges posed by significant budget deficits, inefficiencies in budgeting, and the declining revenues from fossil fuels, while highlighting the potential of sovereign green bonds to mobilise capital and align with international sustainability standards. By fostering a robust framework for sustainable finance, Czechia aims to promote investor confidence, market integrity, and long-term economic stability.

Sovereign green bonds issuance, though mostly discussed in public, is only the finish line of the entire process of adopting and embracing sustainable finance principles in the public sector treasury and fiscal management. There are many important steps on the road that cannot be skipped and that are vital to improving controlling, budgetary savings, predictability and financial sustainability. They include introduction of (green) spending reviews, green budgeting and sustainable public procurement.

A spending review cycle with a focus on green transition and sustainability should be put in place to concentrate on the climate and energy policy funding and the incentive landscape, providing methodological guidance for organisational bodies of the state and piloting the proposed measures. The aim is to examine the cost-effective use of the state budget funds and the efficient use of the existing levers of the public sector to achieve environmental and climate goals.

The Law 218/2000 Col., budgetary rules, as amended ('Budgetary Rules'), or a subsidiary regulation, would need to be amended accordingly to include proper single methodology for identifying green projects within the state budget. This methodology should define the criteria these projects must meet and ensure they are regularly monitored and evaluated for their environmental impacts in line with EU Taxonomy. This approach would promote the efficient use of public funds and support the attainment of national climate objectives.

The described task and the associated relevance of focusing on the impact of measures and budgetary resources requires a systemic approach. The categorisation of climate- and environment-specific income and expenditure is complex and can be conducted according to different approaches.

Efficiently functioning sustainable public procurement is also integral to the set of actions required to deliver more EU Taxonomy-aligned public expenditure. Sustainable public

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procurement is a precursor to wider adoption of sustainable finance. Failing to apply sustainable public procurement practices can lead to several risks and challenges, particularly in the realms of decarbonisation and the adoption of sustainable finance, as it is a necessary precursor for effective green budgeting and sovereign green bond issuance. Without a concerted effort to purchase environmentally friendly goods and services, public institutions may inadvertently contribute to higher emissions and perpetuate reliance on non-renewable resources.

In line with the National Procurement Strategy of the Czechia for the Period 2024–2028, adopted by the Czech Government in February 2024, public procurement must evolve from a process-oriented focus to a strategic approach emphasising value for money, sustainability, and full digitisation. This strategy integrates measurable sustainability and sustainable finance into public purchases and the public investment cycle in Czechia.

Both actions together—green spending review and sustainable public procurement—are essential precursors to eventual sovereign green bond issuance. Without these efforts, Czechia may struggle to demonstrate its commitment to environmental stewardship and fall behind in aligning with international sustainability standards.

To enhance the effectiveness of diverse (sectoral or thematic) national strategies in line with the ambitions of this report, the MoF should request on a regular basis (i) a high-level cost assessment for each strategy submitted to the government, and (ii) clear identification of potential financial resources to support its implementation. By applying standardized methodologies (like cost-benefit analysis or value for money approach) and identifying and diversifying funding sources (e.g. EU funds, private capital or state budget), policymakers can greatly enhance the likelihood of successful execution of national strategies. Ensuring transparency, accountability, and ongoing stakeholder engagement underpins the entire financing framework and helps maintain momentum over the multi-year span of a national strategy. By following these best practices—thorough planning, transparent processes, allocation of financial resources, and strong oversight—a national strategy stands the best chance of translating ambitions into real, measurable outcomes.

Last but not least, it is important to increase subnational government funding capacity. In Czechia, regions and municipalities depend on central budgets and state funds instead of using their own sources or attracting private investments. They are not implementing the state's economic policy effectively due to a lack of performance-linked budgeting, which allows them to obstruct various initiatives.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform, legislative proposals regarding budgetary rules, methodological guidance, technical preparation and implementation.
2. The MoE: coordination of methodological guidance regarding technical aspects of EU Taxonomy.
3. The MoRD: promotion of sustainable public procurement and accompanying methodology guidance on selection of sustainable solutions.

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4. Organisational bodies of the state: implementation of both sustainable public procurement and green spending review and budgeting.

Roadmap for Implementation

Phase 1: Quantifying Costs of Strategic Initiatives and Enhancing Sustainable Procurement Practices (M0-M12)[4]

a) **Request a high/level cost assessment** for each strategy submitted to the government to leverage standardized methodologies in order to ensure efficient allocation of resources.
b) **Establish Clear Sustainability Selection Criteria Methodology** in public procurement. This should include environmental, social, and governance (ESG) factors, ensuring publicly funded initiatives align with national and EU sustainability goals. This step is crucial for embedding sustainability into the procurement process and ensuring that all purchases contribute to decarbonisation and sustainable development.
c) **Promote Education and Training** for public procurement officials to ensure they understand and can implement sustainability criteria effectively. Continuous professional development will help maintain a high standard of procurement practices and keep pace with evolving sustainability goals and methods.

Phase 2: Development of green spending reviews at the Central Government Level – Methodology and Piloting (M12-M18)

a) Apply the definition of 'climate- and environment-specific payments and outflows or income and expenses' in the Budgetary Rules.
b) Use the existing support instruments (grants, financial instruments) for a stronger impact orientation in the climate and energy sector.
c) Review the compatibility of new projects (including legal matters) with relevant framework laws.
d) Integrate the transparency database into the budget process.
e) Conduct detailed assignment of the input-side categorisation to the GHG sectors.
f) Homogenise GHG calculation methods among organisational bodies of the state.
g) Strengthen compatibility of data collection and reporting with the budget cycle.
h) Request a clear identification of potential financial resources allocated to the national strategies as a key enabler for a successful implementation over the multi-year span.
i) Introduce an iterative climate risk management system for the governmental areas of responsibility.
j) Initiate a pilot project with relevant implementation tools for the comprehensive identification of impact indicators.
k) Review the methodology based on the pilot project and inform the government.

4 'M' stands for 'months from now'

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Phase 3: Development of green spending reviews at Central Government Level – Full-scope Implementation Aligned with EU Taxonomy (M18-M30)

a) Regular recording of adjustment-relevant disbursements in the state budget.
b) Implementation of the principle of cost responsibility in the state budget and between local authorities.
c) Identification of particularly vulnerable budget items in the state budget.
d) Initiation of a pilot project with relevant implementation tools for the comprehensive indication of impact indicators.
e) Application of the Green Budgeting method to all central government authorities.
f) Implementation of a common database of the relevant green budgeting data (in Státní pokladna[5] and other systems)
g) Reporting of all relevant measures taken by the central government authorities in the field of climate, environmental and energy policy.
h) Pilot implementation of green budgeting pilot projects with selected regions or cities.
i) Initiate discussion with the Supreme Audit Office (SAO) to identify adaptation potential and to integrate climate change more strongly into the impact-oriented control cycle.
j) Monitoring of implementation by the SFP, yearly progress report submitted to the Government.

Phase 4 (Optional): Issuance of Sovereign Green Bonds (M30-M36)

Government green bonds contribute to transparency regarding pricing and to improved reporting on green investments. The allocation report and an impact assessment are also valuable sources of information after the issue to determine which environmental goals were achieved with the issue of green bonds. The road map of the Green Bonds Framework would include:

a) **Establish a Green Bond Committee** at the MoF comprising representatives from various departments and CNB. This committee will be responsible for overseeing the development of the green bond framework and ensuring its alignment with national sustainability goals.
b) **Define Green Project Criteria** for what constitutes a green project, ensuring they align with international standards, such as the European Green Bond (EuGB). This involves setting environmental objectives, such as reducing carbon emissions, enhancing energy efficiency, and promoting sustainable infrastructure.
c) **Create a Legal and Regulatory Framework** to incorporate provisions for green bonds. Ensure that the legal framework supports the issuance, monitoring, and reporting of green bonds, providing clear guidelines for all involved stakeholders.
d) **Develop a Green Bond Framework Document** in the form of a MoF decree outlining the objectives, criteria, and processes for green bond issuance. This document should include details on the use of proceeds, project evaluation and selection, management of proceeds, and reporting commitments.
e) **Engage Stakeholders and Market Participants.** To gather feedback and build support for the green bond issuance, engage in market testing consultations with potential investors, financial

[5] https://portalcsuis.statnipokladna.gov.cz/csuisweb/index.html

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institutions, and other stakeholders. This engagement will help ensure that the framework meets market expectations and attracts investors.

f) Once the framework is established, proceed with the **issuance of the first sovereign green bond emission**. This involves marketing the bond to both domestic and international investors, conducting a transparent allocation process following a clearly defined methodology and KPIs, and setting up mechanisms for ongoing monitoring and reporting of the bond's impact.

1.2 Fostering Development of Sustainable Infrastructure

In an era of climate change and environmental threats, financing sustainable infrastructure in Czechia is crucial. Investing in sustainability-related activities, such as renewable energy projects, clean mobility initiatives, and energy-efficient buildings, can significantly reduce carbon emissions and enhance resilience. Additionally, climate adaptation projects, such as comprehensive water management and urban design improvements, can enhance Czechia's infrastructure's ability to cope with the impacts of climate change. Faced with urgent sustainability challenges, Czechia lacks a comprehensive national public investment framework that integrates complex investments throughout the project cycle. There is neither any adequately equipped and adaptable agency to coordinate public investment activities, nor are there centres of excellence focused on public investments and sustainability, as seen in many developed nations. Moreover, Czechia does not have a unified quality assurance system for comprehensively overseeing the preparation and implementation processes of large projects and programs. Given the significant pressure on authorities to comply with EU legislation and its own sustainability goals, the absence of a unified quality assurance system for comprehensively overseeing the preparation and implementation of large projects and programs poses a significant risk. Because these changes will predominantly affect infrastructure and physical assets, developing a robust national governance framework for public investments is imperative and should be prioritised.

PPPs can expedite regional and local infrastructure investments. Czechia should consider leveraging PPPs, ensuring subnational governments can manage financial commitments and steer projects. This necessitates skilled teams due to the complex nature of PPP projects. Establishing a National PPP Unit to support regional and municipal capacity could be beneficial, drawing on models like the UK's Private Finance Initiative or France's public-private partnership contracts. Or even Lithuania's Green Finance Institute within the National Promotional Institution which acts as a preparatory and consultation hub on all types of sustainable finance issues.

PPPs can be attractive for a number of reasons especially because they can be an efficient way of accelerating infrastructure investments at the regional and local levels. Taking advantage of the renewed momentum for PPPs, Czechia could envisage large municipalities engaging in PPPs. However, it is extremely important to closely assess financial commitments to ensure that the sequence of subsequent payments is compatible with the financial situation of subnational governments. This requires highly skilled, competent, and experienced teams, given the complexity of the financial, technical and legal frameworks of PPP projects. Such expertise is generally not available outside the bigger cities.

The British Infrastructure and Projects Authority (IPA) offers a compelling model for Czechia to manage large public investments. Established to oversee major infrastructure projects, the IPA enhances efficiency, transparency, and accountability through rigorous evaluation, risk management, and stakeholder engagement. The UK's Infrastructure Bank also co-invests with the private sector in sustainable projects, aiding in mobilizing private capital and providing advisory support.

By adopting a similar approach, Czechia could improve the implementation and financing of sustainable infrastructure projects. The IPA's focus on a centralized coordinating body that streamlines permitting, structures financing, and encourages private sector involvement can mitigate risks and accelerate timelines. Additionally, the IPA's best practices in sustainable procurement and EU Taxonomy compliance can attract investments and ensure long-term sustainability. Czechia could establish a dedicated body to manage infrastructure projects efficiently, facilitating a smoother transition to a low-carbon economy.

The introduction of a similar authority in Czechia, together with a long-term infrastructure plan, could significantly improve the situation of implementing large infrastructure and sustainable projects and the provision of their long-term financing. A central coordinating body focusing not only on permitting processes but also on structuring financing and private sector involvement could bring greater efficiency and reduce the risks associated with these projects. This could also contribute to the faster implementation of strategic projects such as a gigafactory or high-speed rail, which are key to Czech sustainable development. Development of digital infrastructure such as data centres is also dependent on renewable energy availability.

Several actions were already taken:

- **The Committee for Strategic Investments** was established by the Czech Government and operationalised within the Office of the Government in June 2023[6]. Its role is to help better coordinate the preparation and improve the conditions for faster and more efficient implementation of strategic investments in the areas of transport, housing, energy, education and science, research and innovation, and investments requiring Government approval for granting an incentive. This committee can serve as a precursor of a body similar to British IPA.
- **The National Recovery Plan** Component 4.1 Systemic Support of Public Investments[7] includes a set of specific reform measures and technical assistance packages to support public investments and is intended to prepare regional investors for the transition to a green and digital economy. Also, the joint effect of reforms and investments aims at enabling the development of the cultural and creative sectors. Another key component of these reforms is the establishment of the Coordination and Competence Centre at the State Fund for Support of Investment (SFPI) and its subordinate eight Regional Housing Investment Support Centres, which are designed to bring expert support for municipal rental housing investment[8].
- **The NDB** shall also strengthen its technical assistance capacities. It will mainly support the private sector in preparing EU Taxonomy-aligned projects for funding and support public sector entities in preparing Energy Performance Contracting (EPC) projects via the second ELENA

[6] See https://vlada.gov.cz/en/ppov/government-committee-for-strategic-investments/government-committee-for-strategic-investments-209660/.
[7] Component 4.1. was prepared with the aim to contribute to a solution of problems in the Czech investment environment that were identified while working on the National Investment Plan between 2018-2020. It involves four reforms, namely (1) Methodological support in the preparation of projects in accordance with EU goals, (2) Methodical support and modernization of public investments, (3) Financial support for the preparation of projects in accordance with EU goals and (4) Increasing the effectiveness and strengthening the implementation of the National Recovery and Resilience Plan. For more information, see https://www.planobnovycr.cz/instituce-regulace-a-podpora-podnikani-v-reakci-na-covid#ememiqsipseuygwcxcxlkmxwoevlskeiwqgt.
[8] These centres, which were established in April 2024 are already providing services to municipalities and other eligible applicants, see https://sfpi.cz/komponenta-4-1/#:~:text=SFPI%20v%C3%A1m%20pom%C5%AF%C5%BEe%20p%C5%99ipravit%20zad%C3%A1n%C3%AD,nebo%20digit%C3%A1ln%C3%AD%20a%20zelen%C3%A9%20tranzice.

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technical assistance project as recently approved for NDB by the European Investment Bank (EIB). In this regard, the bank should transform its five regional branches into modern competence advisory centres providing professional consultancy service rather than general advisory on NDB products.[9]

- **Státní investiční a rozvojová společnost (SIRS)** – The State Investment and Development Company is dedicated to the development of strategic business parks, particularly in connection with the EU's Net-Zero Industrial Act (NZIA). Its goal is to accelerate the preparation of investments in key sectors of the Czech Economic Strategy: Czech Republic in the Top 10[10], such as electromobility, chip technology for AI, renewable resources, and others.

The key task for central, regional, and local governments is to deliver efficient, sustainable infrastructure investments supported by smart technology. This requires a collaborative framework with coherent planning, robust project development standards, and efficient financing methods. For energy system planning, the EU's fourth gas package ensures integrated network planning between electricity, gas, and hydrogen, making energy infrastructure development more cost-effective. Similar structures exist in Germany and the UK. Establishing such a framework in Czechia can serve as a blueprint for planning in other sectors, like transport, water, and waste management.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform.
2. Committee for Strategic Investments: coordination of cross-sectoral tasks related to major projects.
3. State funds or CzechInvest: developing its capacities in project and sustainable finance options preparation for major projects.
4. The MoRD, NDB and SFPI: delivery of technical assistance.
5. The MoIT, MoE, SFPI, SFŽP: adjustment of eligibility of accompanying subsidy programmes and evaluation criteria for promoting EU Taxonomy-aligned investments.
6. SIRS: preparation and operation of strategic business parks for Net-Zero technologies
7. SFP members: dialogue and testing of the proposed measures.

Roadmap for Implementation

Phase 1: Co-ordination in public investment planning (M0-M12)[11]

a) Transform state funds, SIRS and CzechInvest into a 'major projects authority', developing their capacities in preparing project and sustainable finance options for strategic projects approved by the government with fast track permitting and priority access to public funds and support.

[9] Good practice in Lithuania was already identified on this topic in the Good Practice Report.

[10] https://mpo.gov.cz/assets/cz/rozcestnik/pro-media/tiskove-zpravy/2024/10/Hospodarska-strategie_shrnuti-priorit-a-klicovych-oblasti.pdf

[11] 'M' stands for 'months from now'

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b) Develop and maintain a cross-sectoral short-list of EU Taxonomy-aligned projects to improve investment the readiness and absorptive capacity of the public and private sectors and focus financing from various sources on the most impactful projects.
c) Improve the alignment between infrastructure investment planning and national strategies such as NECP, SEK and POK and priorities to ensure that investments are planned and delivered in a way that supports broader national objectives.
d) Adjust the eligibility of EU co-funded subsidy programmes and evaluation criteria to promote EU Taxonomy-aligned investments by providing e.g. bonus points in evaluation or higher rates of support (while observing state aid rules).

Phase 2: Establishing a process of prioritising and funding major infrastructure projects, including technical assistance (M12-M24)

a) The authority or authorities for implementation of major projects shall prepare and operate a managed, national project pipeline with a special focus on major projects.
b) Develop project appraisal and prioritisation standards across sectors in line with international good practice.
c) Facilitate green bonds frameworks for major projects funded by the State Fund for Transport and the state-owned entities like Správa železnic and state-owned enterprises.
d) Improve infrastructure delivery capacity by increasing the use of framework agreements and develop a consistent, evidence-informed approach to decisions on infrastructure delivery models (traditional procurement, design-build, PPP, etc.).
e) Increase funding and direct support for project preparation to improve infrastructure development, in particular at the municipal level.

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2 Promoting Sustainability-Aligned Investment in Non-Financial Undertakings

This chapter delves into fostering the sustainable finance projects in the private sector. As Czechia navigates its transition towards a greener economy, the utilisation of targeted, market-oriented financial instruments and grant support, and promotion of specific financial products such as green bonds and sustainability-linked finance, become paramount. These instruments are not merely supplementary but essential in bridging the financial gaps and catalysing private sector investments in sustainable initiatives.

Furthermore, the development of the green bond market and the integration of sustainability-linked finance are vital for creating robust and credible financing mechanisms. These financial instruments and/or products not only attract a diverse pool of investors but also embed sustainability metrics within the financial framework, thereby reinforcing the commitment to long-term environmental goals. Transition finance, in particular, plays a pivotal role in this context, offering tailored solutions that support industries and businesses in their journey towards reduced carbon footprints and enhanced environmental performance. The strategic deployment of these instruments for private sector can accelerate the shift to a low-carbon economy while ensuring economic viability and resilience.

The recommendations in this chapter address challenges and risks in the Diagnostic Report identified in parts 4.2 Sustainable Finance Products, 4.4 Non-Financial Enterprises and Sustainable Finance and 4.5 Motivating the Private Sector to Invest in Sustainable Activities.

2.1 Promoting Sustainable Finance with Financial Instruments

The Czechia, unlike, for example, Poland or Slovakia, does not pay sufficient attention to the advantages of financial instruments as an alternative to grant support, especially for economically viable projects. In the previous programming period, which ended in 2023, a total of 1,544 financial instruments were implemented in the EU.

Poland used over EUR 11 billion in 580 financial instruments for this form of repayable support, Slovakia over EUR 2 billion in 66 financial instruments, and the Czechia only around EUR 1.5 billion in twenty financial instruments. The number of instruments is partly due to the number of involved financial institutions. Poland uses commercial banks and investment funds for the implementation of financial instruments to a much greater extent than the Czechia, instead of state agencies.

From the Czech public finance point of view, greater use of financial instruments in promotion of sustainable finance compared to, for example, subsidies and other non-refundable forms of support in financing public policies can have the following advantages:

1. **A revolving effect** in the sense of the turnover of resources, when, after repayment of the support of the financial instrument, the returned funds can be used for further support without additional entitlement to public budgets. EU funds can therefore be 'locked up' in Czechia with the help of a financial instrument and used again for further support, e.g., after the repayment of the underlying loans. As we can see from the example of Poland, the more a country uses financial instruments, the greater this effect.
2. **Leverage** in the sense of mobilising private capital to achieve the goals of public policies means banks or investment funds can provide private resources for the implementation of financial

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instruments. For example, they may issue guaranteed loans, provide liquidity to subsidised loan funds, invest in the form of mezzanine loans, project bonds, etc.

3. **Risk sharing** in the sense of motivating the private sector to adjust its behaviour in accordance with public policy, e.g., investing in relatively risky areas such as innovation, 'green' technologies, small and medium-sized enterprises, etc.

The origination of innovative financial instruments underscored by a stable outlook on the support and reinforced role of the NDB, along with a substantial increase of its capital, was highlighted by the Financial Sector Survey. The potential of the NDB to drive the sustainability transition is immense, as examples such as KfW in Germany and UK Infrastructure Bank clearly evidence the leverage national promotional banks can have in driving the sustainability transition and de-risking its pathways across national economies.

Currently, the proposed NDB has been approved by both House of Representatives and the Senate of the Czech Parliament. Despite these positive steps, it is worth considering the extended mandate of the NDB, in the context of sustainability transition.

So far, state institutions have used cooperation with private financial institutions within the framework of financial instruments to a limited extent when distributing support for sustainable projects. In practice, the 'fund of funds' model, which consists of entrusting the implementation role to private financial institutions, works very well for both debt and equity products promoting sustainable finance as described in the preceding reports including implementation models of KfW or EIB Group. These institutions have direct access to millions of clients from households and companies and, in the case of appropriate commercial setting of the conditions of financial instruments, are able to distribute support effectively and motivate their clients to invest in sustainability, as shown by examples from other countries, including neighbouring Germany.

National development financial institutions in the EU mainly function as providers of green credit lines, global guarantees and counter-guarantees, leaving the work with individual clients to the private sector. Such a system is more efficient, cheaper and faster than the prevailing model in Czechia, where each individual applicant must apply for support from a state institution.

The NDB in Czechia focuses on supporting small and medium-sized enterprises, including sustainability-related activities, such as energy efficiency. However, the volume of financing provided is smaller compared to development banks in other countries[12]. The volume of financing for sustainable projects in Czechia is even more limited. in 2022 the NDB provided around 1 billion CZK for projects related to energy savings, which is significantly less compared to the volumes in neighbouring countries.

The NDB has potential to become a key player in the field of sustainable financing in Czechia, especially if it were to transform into a so-called 'green bank'. This role would involve working closely with SFŽP and other public and private entities. Cooperation with commercial banks would be essential for the NDB, especially in the broader support of small and medium enterprises (SMEs) and larger companies that implement sustainable projects. SFŽP and SFPI have immense potential in the field of

[12] The overall share of financial instruments on total allocation of EU funds in Czechia actually decreased from 8 % in 2014-2020 programming period to about 4 % in the current 2021-2027 programming period.

their professional knowledge, ability to finance, provide advice and communicate with final beneficiaries' target groups.

The NDB, in cooperation with SFŽP, SFPI and commercial financial institutions, has the potential to become a key player in the field of sustainability financing, but its success will depend on the creation of a credible strategy, expanding capacity and effectively cooperating with commercial banks and other partners. Inspiration from practice in Germany, France, the Netherlands and Poland shows that state-owned banks can play a vital role in promoting sustainable development if they are well organised and strategically focused.

In order to optimally support green finance measures, existing support instruments and initiatives should continue to be used in order to maximise the efficiency of the measures taken, in particular those implemented by the NDB,SFŽP and SFPI.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform.
2. The NDB, SFŽP, SFPI: adjustment of financial instruments support.
3. Sustainable Finance Platform members (financial sector): dialogue and testing of the proposed measures.

Roadmap for Implementation

Phase 1: Development of Investment Strategy (M0-M12)[13]

a) Introduce an investment strategy of financial instruments supporting sustainable investments at the state level. For example, in the field of EU operational programmes, a common preliminary assessment of financial instruments for all programmes can easily be created.

b) To be effective in implementing sustainable projects, the NDB must have a clearly defined strategy that considers both national climate goals and the specific needs of the Czech market. This strategy should include:

    1. **Capacity building:** The NDB should expand its internal expertise in sustainable finance and develop cooperation with external partners.
    2. **Resource mobilisation:** The NDB should look for ways to raise additional funds through partnerships with European institutions, such as the European Investment Bank (EIB), or through green bond issues.
    3. **Stakeholder engagement:** leverage the expert role of ministries, state funds communication with financial institutions associations, engagement of final recipients' target groups (Svaz průmyslu, Hospodářská komora, Asociace malých a středních podniků, Svaz měst a obcí etc.).
    4. **Product framework and business models**: NDB shall define its business model relying mainly on cooperation with commercial financial institutions and create long-term product frameworks uncovering market-conform support of sustainable finance.

[13] 'M' stands for 'months from now'

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5. **Role of the NDB as an implementing partner:** NDB should focus on the effective implementation of the strategies set by the government and European institutions. This means close cooperation with SFŽP, other state funds, EIB and other partners at the national and international levels in implementation of financial instruments.
6. **Technical Assistance:** NDB and partners (state funds, CzechInvest) can help set up EU Taxonomy-aligned projects.

Phase 2: Coordinated Implementation of Financial Instruments (M12-M24 and ongoing)

a) Coordinate the implementation of financial instruments by a government committee/one of the ministries (presumably MoF) as depicted in the figure below.
b) Form a partnership with international financial institutions, gaining good practice (EIB, EIF, CEB, EBRD, etc.).
c) Form a partnership with the private sector associations in development of concrete financial instruments conditions to be sure they respond the real market situation and needs.

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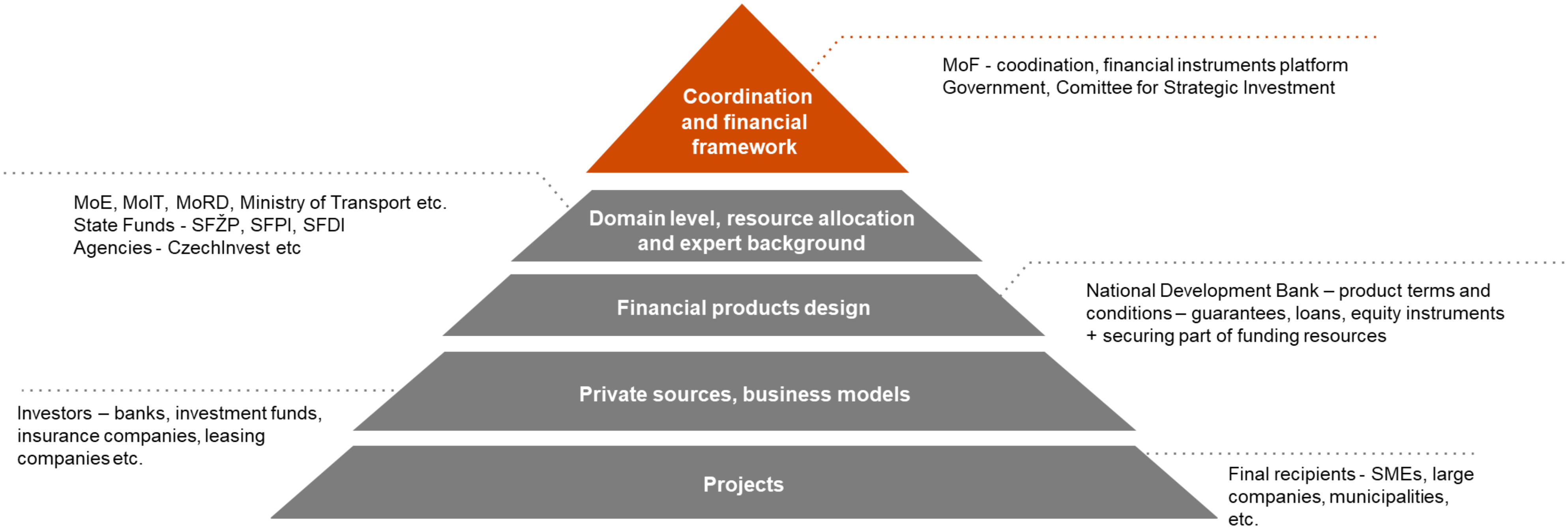
Figure 2: Implementation of the Financial Instruments Investment Strategy



2.2 Increasing Motivation to Invest in Sustainable Activities

Private investments play a crucial role in meeting climate and sustainability objectives. Private capital not only supplements public funding, but also brings innovation, efficiency, and expertise to the table, driving the rapid development and deployment of green technologies and sustainable practices. By channelling resources towards renewable energy, energy efficiency, clean transport, and other eco-friendly initiatives, private investors help bridge the funding gap needed to meet ambitious environmental targets. Additionally, private sector involvement fosters competitive markets, encourages low-carbon solutions, and promotes long-term economic resilience, thereby creating a robust foundation for sustainable growth aligned with global climate objectives.

Companies in the financial and real economy, as well as state and quasi-state enterprises, are advised to evaluate their business strategies from an environmental and climate perspective and to adapt their goals and internal guidelines if necessary. In this context, the implementation of long-term scenarios in the lending process and in risk management is particularly relevant for financial companies.

Government can play a key role in reducing investment risks through subsidies, tax incentives, and guarantees that ensure that projects are economically viable even in the face of market changes or technological uncertainties. Direct subsidies, financial instruments, tax incentives, contracts for difference and other types of support for the construction and operation of sustainable projects, such as renewable energy sources, energy efficiency, green buildings or clean mobility, are a key tool that can improve derisking the investment scenarios.

This is especially important for enterprises partially or fully owned by the state. Czechia could be inspired by the Dutch example, which combines development of state ownership in strategic carbon-intensive fossil fuel industry businesses with development and acceleration of their sustainability policy. Furthermore, it would be beneficial to create a similar national plan that would combine strategic goals with concrete steps to support sustainable investment and innovation in the energy sector.

Most of the Czech public support programmes apply solely the DNSH principle, typically without any further eligibility or evaluation criteria related to EU Taxonomy-alignment. This results in shortage of the EU-Taxonomy aligned projects, which in turn does not allow the financial sector to use sustainable finance products for their financing.

Overall, to improve support for renewable sources, energy efficiency, clean transport or affordable housing and other social infrastructure projects in line with EU Taxonomy, Czechia should:

1. **Simplify and unify subsidy programmes**. Holistically review all subsidy programmes and simplify and unify the subsidy regime.
2. **Create a stable and predictable legal framework** for investors and implement EU regulation in a timely manner to ensure level-playing field for Czech businesses.
3. **Focus on support of innovation and innovative technologies** that promote energy efficiency, renewable energy generation, such as green hydrogen, Carbon Capture and Storage etc.
4. **Ensure the availability of finance,** in particular for households and small businesses to make sustainable investments.

In addition to subsidies, other measures such as Contracts for Difference (CfDs) would ensure stabilisation of energy prices, which is necessary for retaining competitiveness of the Czech economy.

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The support for RES in Czechia, which is required to meet NECP goal of 30% share of renewable energy by 2030, should include a combination of investment subsidies and operational subsidies in a form of auctioned feed-in tariffs or CfD, inspired by the systems in Germany, France or the Netherlands and adjusted for the latest EU recommendations. This comprehensive support would reduce market risks, facilitate the financing of projects and support greater diversification of the energy mix, especially the development of wind energy, which is currently neglected in Czechia.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform, adjustment of budgetary rules to accelerate renovation of state-owned buildings by leveraging EPC method.
2. The MoIT, MoE, SFPI, SFŽP: adjustment of the eligibility of accompanying subsidy programmes and evaluation criteria to promote EU Taxonomy-aligned investments, inclusion of innovative approaches in support of RES development.
3. SFP members: dialogue and testing of the proposed measures.

Roadmap for Implementation

1. Renewable Energy Sources – adopting efficient PPA and CfD measures (M0-M24)[14]

Figure 3: Power Purchase Agreements (PPAs) Related Recommendations for Acceleration of RES Development

The PPA aspect enabling the acceleration of RES development	Support from the state
Price reduction (especially for PV plants)	1) Investment subsidy: increasing the percentage of support so that it pays to implement projects with a PPA price at the capture-price level (market price of electricity from PV plants = capture price for PV plants) 2) Accelerating the implementation of EU directives (RED III, update of directive 2019/944), especially with regard to aggregation, flexibility and accumulation. This could alleviate zero or negative electricity prices in times of RES production abundance, and further maximise the utilisation of battery storages so-called co-located with PV plants to provide power balance services and other support services (especially in winter).
Plenty of wind farm projects ready for construction	Preparation of acceleration zones and acceleration of related permitting processes
Mitigation of counterparty risk and provision of compensation in case of early termination	Offer a guaranteed mechanisms (but a negative consequence may be excessively reduced risk aversion and the conclusion of PPAs with a high probability of fulfilment by the state)

14 'M' stands for 'months from now'

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Reduction of transaction costs for closing PPAs	Preparation of templates of term sheets and contracts (but templates already exist within the EU, and legal offices have them available)

Figure 4: CfD Related Recommendations for Acceleration of RES Development

Aspect of CfD	Recommendation
Type of CfD	Bilateral/symmetrical (in accordance with EU Regulation No. 2024/1747)
Production volume for settlement	Ideally, the so-called reference volume of production (not actual) is determined, e.g., according to the weather conditions and technical parameters of the given RES or reference RES (which are defined before submitting bids to the auctions) or according to the production profile defined in the CfD contract (e.g., on an hourly basis).
Reference price	The reference price may be the spot price in the daily market (the so-called 'Day Ahead Market' or 'DAM') in the case of using reference production volume for settlement. The actual capture price for the given technology determined ex-post (e.g. on a monthly or annual basis) in the case of using the actual volume of production (so-called 'actual injection') for settlement.
Support (CfD) in case of negative spot prices	This is not relevant if reference production volume is used for settlement. If actual production volume is used for settlement, consideration should be given to setting up CfD support to reduce producers' incentives to continue production when spot prices are negative. However, the frequency of occurrence of negative spot prices cannot be influenced by individual producers, and therefore any restriction of support in case of negative spot prices should be compensated (e.g., by extending the duration of support in the form of CfD by the number of hours when support was stopped due to negative spot prices).

Revision of public support programmes regarding application of the EU Taxonomy in eligibility and/or evaluation criteria

2. Energy Efficiency (M0-M24)

a) **Amend the Law on Budgetary Rules** - Finalise the process of amending Law No. 218/2000 Coll., Budgetary Rules, to accommodate the long-term financial liabilities associated with Energy Performance Contracts (EPCs). This legislative change will enable state organisational units to enter into EPCs, which are typically financed from future savings, without conflicting with annual short-term budget preparations.

b) **Assessment and Planning** - Assess the current energy performance of state-owned buildings. Use ELENA technical support to foster the initial project preparation phase. This includes identifying potential improvements, setting realistic energy-saving targets, and developing an action plan with timelines, responsibilities, and resource allocation.

c) **Implementation of Energy Performance Contracts (EPC)** - Engage with qualified energy service companies (ESCOs) to implement energy performance contracts. These contracts should outline clear terms for energy-saving measures, monitoring, and guaranteed savings. Seek innovative financing solutions, such as incorporating future savings into the contract terms, to comply with state budget management rules.

d) **Monitoring, Evaluation, and Reporting** – Establish a robust system for monitoring and evaluating the performance of implemented energy efficiency measures. Ensure regular

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reporting on progress and savings achieved. Leverage ELENA's ongoing support for optimising project execution and addressing any arising challenges. Continuous evaluation will facilitate adjustments and ensure long-term sustainability and compliance with regulatory requirements.

3. Clean Mobility (M0-M24)

a) **Implement Tax Incentives for Clean Mobility** – Introduce tax incentives for low emission vehicles buyers, such as reduced registration fees, lower annual road taxes, and tax credits – both businesses and broad population. Additionally, consider offering incentives for businesses that invest in electric fleets or provide charging infrastructure for employees. Tailoring these incentives to different user groups can enhance their effectiveness.

b) **Enhance Public Charging Infrastructure** – Invest in the widespread deployment of public EV charging stations, focusing on high-density urban areas and major transportation corridors. Provide grants or incentives to private entities that install charging stations in public spaces, such as shopping centres or parking lots.

c) **Promote Fleet Electrification in Public Transport** – Increase funding for the electrification of public transport fleets, including buses and trains. Offer grants or subsidies to public transport operators that transition to low emission vehicles such as TRANSGov programme of Modernisation Fun including hydrogen technology adoption. Additionally, create pilot programs to demonstrate the feasibility and benefits of electric public transport, encouraging wider adoption.

2.3 Standardisation of Sustainable Finance Instruments and/or Products

Development and utilisation of EU Taxonomy-aligned, transition and sustainability-linked financial products face significant challenges in Czechia. Green bonds face challenges due to a lack of comprehensive sustainability planning and the need for a robust ESG framework. Sustainability-linked finance is hindered by the absence of standardised frameworks and benchmarks, making it difficult to attract ESG-focused investors. These issues slow the adoption of green technologies and practices, ultimately affecting the pace of innovation and competitiveness.

Sustainable finance instruments are needed to channel private capital into climate and environmentally friendly investments in line with the objectives of the EU Taxonomy Regulation. These ties financed companies to sustainable projects, such as the expansion of renewable energies or measures to increase energy efficiency. The Taxonomy Regulation, including its technical assessment criteria, provides the framework in which sustainable activities are classified and can be used as a benchmark for green financing instruments. The government supports the redirection of private capital flows into sustainable investments by adapting existing instruments (e.g., subsidies, guarantees) with a view to Taxonomy criteria.

In this regard, **climate transition plans are essential for helping companies navigate the complex shift to a low-carbon and climate-resilient economy.** These plans are gaining momentum globally as they not only contain climate commitments and targets, but also explain how those objectives fit strategically into an overall national economic policy and strategy. An effective national transition plan can provide a national government with a data-informed roadmap for driving economic transformation as market dynamics change and society's expectations shift.

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Standardisation of green financial products, such as green bonds and loans, is crucial for the consistent development of sustainable finance. The adoption of these standards would streamline the issuance and subscription processes, ensuring transparency and accountability.

If Czechia decides to introduce green credit and mortgage standards, it would be appropriate for them to be linked to the EU Taxonomy to ensure consistency with European standards. However, for successful implementation, it would first be necessary to ensure better integration of the Taxonomy into national permitting processes. Furthermore, it would be useful to introduce technical assistance for banks to help them identify and verify projects in accordance with the EU Taxonomy, similar to how it works in Germany or the Netherlands. Ultimately, this would lead to greater certainty on the market and support the development of sustainable financing in Czechia.

The creation of a standard for green loans and mortgages in Czechia should also include clearly defined parameters regarding the energy consumption of buildings so as to be linked to the EU Taxonomy and experience from abroad. This would help ensure that funding goes to projects that actually contribute to reducing emissions and improving energy efficiency, which would be in line with European standards. The preparation of this standard can be used to narrow the cooperation between state funds, NDB and commercial financial institutions. For example, in Germany, Kreditanstalt für Wiederaufbau (KfW) provides commercial banks with credit lines for the provision of green mortgages with the parameters listed above.

At the EU level, numerous binding and non-binding minimum standards for green financial products are currently being developed or revised including EuGB[15]. NDB and SFŽP should take EU Taxonomy into account in implementing financial instruments.

Linking standardised sustainable financial products to the EU Taxonomy would ensure that green loans and mortgages support sustainable projects in line with climate targets. However, this approach also brings challenges, especially in the context of the current state of EU Taxonomy implementation in Czechia.

Furthermore, National Development Bank or also State Fund for Support of Investment ('SFPI') could play significant role in developing social bonds frameworks in areas like affordable housing, healthcare or education, either by using the social bonds proceeds to fund programmes (e.g., extending SFPI affordable housing programmes allocations) or to co-fund individual projects in the development of healthcare and education infrastructure, like hospitals, senior homes or university dorms.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform.
2. The CNB: provide guidance for financial institutions for standardisation of sustainable finance products.
3. The MoIT, MoE: preparation of sectoral and national decarbonisation and transition plans.
4. Platform members (financial sector): dialogue and testing of the proposed measures, mainly in coordination with NDB, SFŽP and SFPI.

[15] EU Green Bond Standard (EuGB), EU Ecolabel for financial products, EC legislative proposal on ESG ratings

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Roadmap for Implementation

Phase 1: Establish a Taskforce on Decarbonisation and Transition Plans to Identify Priority Decarbonisation Sectors (M0-M6)[16]

Under the coordination role of the MoE supported by the MoIT and MoF and assisted by the Committee on Strategic Investments, the Czech Government should decide on establishing a special taskforce on decarbonisation, adaptation and transition plans, focused on the transition trajectories of Czech most important decarbonisation sectors, namely energy, industry, transport, buildings and agriculture, given the substantial decarbonisation opportunities. The taskforce should consist of:

a) Advisory and methodological guidance on decarbonisation and transition plans.
b) Tracking national baselines, schemes and initiatives. coordinate them and propose improvements. and
c) Monitor the international good practice on an ongoing basis, distil good practices and make appropriate recommendations relevant for Czechia.

Phase 2: Introducing Enabling Measures (M6-M12)

The aim of the measures is to remove barriers and use existing flexibility in the investment regulations.

a) In order to identify potentially hindering factors for EU Taxonomy-compliant investments, implement appropriate reflection and evaluation of existing legal investment restrictions.
b) Facilitate changes to the Pension Funds Act, Insurance Companies Act and other relevant regulated long-term investors regulation. Sustainability should be explicitly anchored as an investment criterion with specific eligibility criteria.

Phase 3: Standardisation of Financial Instruments (M12-M18)

To ensure the NDB and the State Fund for Environment align their financial instruments with the EU Taxonomy and foster sustainable finance, the following steps are proposed:

a) Assessment and Analysis of Current Instruments offered by the NDB and the State Fund for the Environment. This includes evaluating their alignment with EU Taxonomy standards, identifying gaps, and mapping out inconsistencies. The analysis should also consider the specific requirements of EU programmes and how these can be harmonised with the widely recognised sustainable finance standards.
b) Development of Standardised Criteria and Framework for eligibility and evaluation criteria that aligns with EU Taxonomy. This involves drafting clear definitions, criteria, and benchmarks that reflect international best practices. Collaboration with financial regulatory bodies, industry stakeholders, and relevant government departments is crucial in ensuring the framework's comprehensiveness and applicability. The framework should encompass various financial instruments, including green bonds, sustainable investment funds, and eco-friendly insurance products.

[16] 'M' stands for 'months from now'

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c) Implementation and Monitoring of Standardisation across all relevant financial instruments offered by the NDB and the State Fund for the Environment. Establish a robust monitoring and evaluation system to ensure continuous compliance with the EU Taxonomy. Regular audits, feedback loops, and updates to the criteria should be part of the implementation strategy to accommodate evolving standards and practices in sustainable finance.

Phase 4: Creation of Uniform Standards and Criteria for Green Financial Products (M18-M30)

The objective of this phase is to establish a cohesive and comprehensive framework for green financial products, ensuring consistency and transparency across the market. This entails developing clear definitions and criteria that align with international best practices and Taxonomy standards. The Czech Government, in collaboration with relevant financial regulatory bodies and industry stakeholders, will draft guidelines and regulations to standardise green financial products. This initiative will facilitate investor confidence and market integrity, promoting the growth of sustainable investments. The proposed standards will cover a wide range of financial instruments, including green bonds, sustainable investment funds, and eco-friendly insurance products, aiming to harmonise practices and enhance market accessibility.

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3 Sustainable Finance Framework and Governance

Awareness and capacity building in sustainable finance are crucial for fostering a resilient and environmentally conscious financial sector. In an era where climate change and environmental degradation pose significant risks, it is imperative that both public and private sector entities develop a deep understanding of sustainable finance principles. By enhancing knowledge and skills related to sustainability, companies can better align their strategies with global environmental goals, effectively manage climate-related risks, and seize opportunities for green investments. This comprehensive build-up of expertise not only promotes responsible investment practices but also ensures that financial decisions contribute to broader environmental and social objectives.

Moreover, the establishment of a robust framework for sustainable finance education, including the development of specialized training programs and academic degrees, plays a pivotal role in closing the existing knowledge gap. Institutions, both academic and professional, must prioritize sustainability in their curricula and professional development initiatives to cultivate a new generation of experts adept at navigating the complexities of sustainable finance. Such initiatives are vital for mainstreaming environmental and climate considerations into every level of financial decision-making, ultimately leading to a more sustainable and equitable economy. Through a concerted effort to raise awareness and build capacity, we can drive meaningful progress towards a future-proof financial ecosystem that supports sustainable development and mitigates environmental impact.

The recommendations in this chapter address challenges and risks in the Diagnostic Report identified in part 4.3 Public Sector.

3.1 Sustainable Finance Platform

One critical gap in the Czech approach to sustainable finance is the disconnect between national sustainability goals, especially those outlined in the National Energy and Climate Plan (NECP), and their implementation across various levels of government. The absence of a top-down allocation of these goals to ministries, state organizations, municipalities, and other public entities results in fragmented efforts and inconsistent progress. This disjunction hampers the effective translation of high-level climate objectives into concrete actions and projects at the local level, thereby weakening the overall impact of the national strategy. Without clear directives and coordinated efforts, the ambition of sustainable finance is undermined, leading to inefficiencies and missed opportunities in achieving long-term sustainability and decarbonisation targets.

The institutionalisation of the existing Sustainable Finance Platform (SFP) is crucial in bridging the strategic guidance on climate goals with the implementation of projects on the ground. The SFP should serve as a permanent body of various stakeholders to promote effective instruments and techniques to unlock finance necessary for decarbonisation and other sustainability-related activities and investments in both public and private sectors. SFP focuses on building a sustainable finance ecosystem to ensure national sustainability targets are ambitious and achievable in terms of finance. The financial sector plays a pivotal role in this process by providing the necessary resources and framework to translate high-level climate goals into actionable projects. The SFP activities aim at further developing the sustainable finance ecosystem, which ensures that national sustainability targets are not only ambitious but also achievable.

The SFP addresses the need for involving multiple stakeholders in a collaborative manner to join efforts in promoting sustainable finance. In this regard, two sectoral groups were already established within the platform: (i) public sector group including central government authorities, regions and

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municipalities, and (ii) private sector group including financial institutions and representatives of non-financial undertakings. Financial sector already involves experience and capacity in embracing sustainable finance agenda and can become a role model also for other sectors.

The SFP should also establish working groups addressing the main issues: data and risk management, EU Taxonomy implementation, public sector sustainable finance framework development and public support by financial instruments and grants.

The Sustainable Finance Platform, coordinated by the Ministry of Finance, acts as an essential bridge between high-level strategic and regulatory guidance and project implementation. By involving multiple stakeholders and leveraging the expertise and resources of the financial sector, the SFP can drive considerable progress towards decarbonisation and sustainability in Czechia. This holistic approach ensures that national and international climate goals are effectively translated into actionable and impactful projects, paving the way for a sustainable future.

Within the relevant SFP working groups, the MoF would work closely with the Czech National Bank, the Ministry of Finance, selected line ministries and commercial financial institutions to gather and harmonise ESG data, ensuring that it meets EU standards and can be effectively used in risk management and financial disclosures.

Responsible Authorities

The implementation of Sustainable Finance Platform as a permanent body should involve multiple stakeholders, including:

1. The Ministry of Finance (MoF): Coordination of the Sustainable Finance Platform, monitoring compliance with standards and enabling international cooperation and dissemination of best practices.
2. The Ministry of Environment (MoE): Leading the development and enforcement of environmental regulations, emissions reporting, and waste management standards.
3. The Ministry of Industry and Trade (MoIT): Promotion of energy efficiency and renewable energy adoption through industry-specific policies and incentives.
4. The Czech National Bank (CNB): Integrating sustainability criteria into financial regulations and overseeing the implementation of green finance initiatives. providing guidance to financial institutions on sustainable finance practices.
5. The Czech Banking Association (CBA): Close cooperation with the banking sector to support their needs for successful implementation of sustainable finance.
6. Other Sustainable Finance Platform members: discussions, submitting proposals and providing feedback on draft measures and participating in pilot projects.

Roadmap for Implementation

Phase 1: Create Management Structures, Policy and Actionable Plans on Sustainable Finance (M0-M12)[17]

[17] 'M' stands for 'months from now'

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a) Institutionalise the Sustainable Finance Platform by a governmental decree or another formal approval as a permanent body attached to the MoF. Coordinate with the MoF and include participation of various stakeholders, ranging from the CNB and ministries to regions, municipalities and private financial and non-financial sector representatives, including its founding working groups, its Rules of Procedure and an adequate yearly budget.
b) Adopt a National Sustainable Finance Strategy by a governmental decree based on this Recommendations Report and other inputs, reflecting the positions and needs of relevant stakeholders.
c) Establish a formal network of responsible persons for coordinating the sustainable finance agenda across the ministries and central government bodies under the delegated management and coordination of the MoF.

Phase 2: Planning and International Consultation (ongoing)

a) Conduct stakeholder consultations with banks, other financial institutions, industry representatives such as the Chamber of Auditors, and civil society organisations using the Sustainable Finance Platform.
b) Subject to the principles of evidence-informed public policymaking, assess and recommend preferential and faster uptake of legislative proposals to relevant responsible authorities such as the Ministry of Regional Development[18].
c) Monitor developments in other EU Member States on an ongoing basis, distil good practices and make appropriate recommendations relevant for Czechia.

Phase 3: Legislation and Policy Development (ongoing)

a) Establish and operate a transposition taskforce to expedite and improve the transposition of the sustainability and sustainable finance *acquis communautaire* into the national framework and extend it beyond mere compliance towards facilitation.
b) Provide impact assessments of drafts or adopted *acquis communautaire* in related to sustainable finance on Czechia.
c) Formulate draft positions on draft proposals submitted by the European Commission (EC).
d) Give opinions on the unification of the Czech terminology in sustainability and sustainable finance.

3.2 Promoting Financial Education in Sustainability

Research and teaching can help to identify, create understanding and put climate-related risks in the financial market into context. To create practice-relevant and application-oriented results based on international good practices, priorities need to be set within the framework of existing research funding or universities' performance agreements (e.g., research funding programs, chairs for sustainable

[18] Such as faster permitting or acceleration valleys in relation to the Net-Zero Industry Act (NZIA).

finance). In addition to managing the climate risk exposure of the financial market, it is important to analyse the real economic effect of sustainable finance measures.

The National Financial Education Strategy 2.0[19], which has been in implementation since September 2020 in joint cooperation of the MoF and Ministry of Education (MoEdu), also sets an overarching priority in supporting consumers in making sustainable and green financial decisions.

An updated focus of the National Financial Education Strategy should be to raise awareness of the importance of ESG factors in connection with the strategy's programmes and initiatives and to warn against the effects of greenwashing. Furthermore, the Czech financial literacy portal[20] should also cover sustainable finance topics. Development of bachelor's and master's degrees and incentives for research in the field of sustainable finance should be supported.

A future-proof and sustainable financial economy requires the integration of climate and environmental aspects into existing financial processes at all levels. This requires a comprehensive build-up of skills and knowledge on environmental and climate-related topics and their interactions with the financial sector. The integration of green financial education into existing training and continuing education programmes for different target groups should be promoted.

Beside that, it is important to support research and development mainly of technologies enabling decarbonisation and other e.g. by aligning the selection criteria of grant programmes of Technology Agency with the sustainability-aligned priorities.

Responsible Authorities

1. The MoF: Responsible for providing methodological guidance on sustainable finance topics, ensuring cooperation with MoEdu.
2. SFP: Tasked with aligning efforts among public and private financial institutions, coordinating best practices in sustainable finance, and fostering knowledge exchange among stakeholders.
3. The MoEdu: Responsible for incorporating sustainability as an overarching priority in education, ensuring that green financial education is integrated into the National Financial Education Strategy, and supporting the development of academic programs in sustainable finance.

Roadmap for Implementation

Phase 1: Update the Czech financial literacy portal (M0-M12)[21]

The MoF together with the support of SFP should incorporate sections dedicated to sustainable finance, offering consumers, students, and professionals an accessible platform to learn about climate-related risks, sustainable investment options, and the importance of ESG in financial decisions. The site should be regularly updated.

Phase 2: Integrate the topic of sustainable finance into the National Financial Literacy Strategy (M12-M24)

[19] https://www.databaze-strategie.cz/cz/mf/strategie/narodni-strategie-financniho-vzdelavani-0?typ=o
[20] https://financnigramotnost.mfcr.cz/
[21] 'M' stands for 'months from now'

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The National Financial Literacy Strategy should be expanded by MoF and MoEdu to include a focus on sustainability. This updated focus should raise awareness of the importance of integrating ESG into financial decisions and would address the risks of greenwashing. The Ministries should also encourage the development of bachelor's and master's degrees in sustainable finance, along with incentives for research in this critical field. By expanding academic programs, universities will help equip future professionals with the skills necessary to address the evolving challenges of climate-related financial risks and ESG integration.

3.3 Communication Plan for Sustainable Finance

The concept of ESG and its ensuing application in sustainable finance is still not perceived by the management of many real economy businesses as a factor conducive to future success and competitiveness, particularly by businesses with Czech capital and SMEs. Furthermore, administrative and financial burden are big hurdles for SMEs. Large firms usually have sufficient financial and human resources to deal with the challenges of the transition. However, SMEs often turn to makeshift and non-systemic arrangements, such as the extension of job descriptions for HR managers. This lack of a systemic approach undermines their future competitiveness and weakens their position in their respective value chains.

The development of a uniform information and communication platform on sustainable finance, coupled with a well-structured communication plan, will significantly enhance the MoF's ability to engage stakeholders, disseminate information, and promote sustainable finance practices. This platform will be instrumental in building a more transparent, informed, and collaborative environment for all parties involved in sustainable finance.

By centralising resources and fostering transparent, consistent communication, the platform will empower stakeholders with the knowledge and capabilities they need to effectively engage in sustainable finance. It will enable financial institutions and businesses to align their operations with sustainability goals, while also providing a forum for dialogue and collaboration that can lead to more innovative and inclusive solutions.

Moreover, the challenges of sustainable finance are also relevant to the management of state-controlled companies and organisations, which, with a few exceptions such as ČEZ, Czech Railways and Prague Airport, are lagging behind in sustainability governance and/or use of sustainable financing products. Therefore, the primary goal of this recommendation is to support authentic uptake of good sustainable finance practices and territorial investment alignment at this level.

Despite in-house training by many large firms, the rapid approval of laws and regulations on sustainability and ESG has often led to incomplete knowledge in this area, as highlighted in the Financial Survey. This issue is compounded by frequent claims about ambiguous methodologies and the lack of a governmental service to track sustainable finance developments.

The need for an optimal bridge between the project and financing levels is particularly relevant. To this end, dialogue, workshops and networking formats should be further developed. The knowledge gained, process models, blueprints, etc. should be made available to all stakeholders in order to achieve

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economies of scale. A key success factor is the acceptance of the framework by end users, such as investors.[22]

Additionally, SMEs, regional and local self-governments, and the general public in Czechia find updated information on sustainable finance inaccessible. The real economy respondents see the current technical support from the Czech Government as inadequate to meet ESG challenges. No systemic assistance for awareness, training, and capacity building is provided, even though EU funds for upskilling and business support are generally available.

To mobilise more private capital for climate protection, it is important to identify potential ways of getting society involved as widely as possible. Citizens as small investors, consumers as well as SMEs are essential for the transformation. The EU Capital Markets Union and the EU Framework for Sustainable Finance also aim to offer SMEs more financing options and promote greater participation of small investors in capital markets. Improving citizens' financial literacy is already part of the pillar of transparency and long-termism and is being implemented nationally under the field of action 'Green financial education'. National options should continue to be evaluated and implemented in line with the results of European work.

A key issue is inadequate and fragmented access to general (e.g., relevant EU legislation and available tools) and specific information (e.g., stakeholder engagement events, success stories) on the subject-matter in Czechia at the central government level, with no dedicated website or structured virtual stakeholder engagement mechanism in place. A well-structured and permanently updated one-stop information platform on sustainable finance with an effective and fast stakeholder request mechanism is a major pre-condition for decreasing the burden associated with sustainable finance and its scaling across Czechia.

These efforts can be supplemented by an annual flagship event on sustainable finance hosted by the MoF with the support of the Sustainable Finance Platform. This event will parallel the National Sustainability and Quality Conference by the MoIT, promoting best practices and innovative approaches.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform. implementation of the
   one-stop shop communication platform.
2. The MoE: methodological guidance regarding technical aspects of EU Taxonomy.
3. CzechInvest and NDB, private sector associations: partners in dissemination activities.

Roadmap for Implementation

Phase 1: One-stop communication platform on sustainable finance (M0-M12)[23]

a) Centralised online resources offering comprehensive and up-to-date information on sustainable finance, including relevant EU legislation, best practices, and success stories.

[22] Inspiration can be drawn e.g. from Austrian Green Investment Pioneers Program (klimaaktiv) and the Green Finance funding program (climate and energy fund), https://www.klimaaktiv.at/
[23] 'M' stands for 'months from now'

b) An interactive communication plan with structured virtual stakeholder engagement mechanisms, including webinars, online forums, and Q&A sessions.
c) A dedicated portal for dialogue and collaboration among financial institutions, businesses, and other stakeholders, featuring discussion boards and networking tools.
d) User-friendly digital tools and resources for advancing knowledge on ESG and sustainable finance, such as e-learning modules, video tutorials, and interactive guides.
e) A comprehensive repository of up-to-date legislation on sustainable finance, all accessible in a single place.

Phase 2: Sustainability Information Packages (M0-M12)

The MoF together with the MoE and MoIT can also communicate information packages for real economy actors (with a special focus on SMEs) in the Sustainable Finance Portal with an accompanying road show and final conference event. Support from the NDB, CzechInvest and the engagement of relevant private-sector associations and the financial sector would help develop the sustainable finance ecosystem and help generate EU Taxonomy-aligned projects. The packages should especially focus on the following issues:

a) Carbon footprint calculation, climate mitigation and adaptation, transition plans.
b) EU Taxonomy, sustainable assets and projects.
c) Sustainability reporting.
d) Sustainability governance.
e) Sustainable financing products.

Phase 3: National Conference on Sustainable Finance (annually, starting in 2025)

The MoF, together with the Sustainable Finance Platform, organises an annual flagship event and invites public and private speakers to share best practices and innovative approaches to sustainable finance.

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4 Sustainable Finance Data and Risk Management

This chapter addresses the challenges and opportunities in gathering ESG data, harmonising information available with EU standards, and creating a supportive framework for utilisation of this data in risk management and disclosure of financial institutions. We emphasise the role of the Czech National Bank, the Ministry of Finance and commercial financial institutions in shaping sustainable finance policies and the critical need for high-quality ESG data for effective risk management and disclosure.

Financial institutions in Czechia face several challenges related to ESG data, risk management, and disclosure. These include a lack of access to high-quality, verified public sector data necessary for regulatory compliance, which affects their ability to assess climate risks accurately and secure financing. The varying implementation of the EU Taxonomy across member states creates disparate data, complicating compliance and project assessment.

The inconsistency in ESG criteria adoption and documentation among European banking groups leads to non-comparable data and increased administrative burdens. Additionally, evolving regulations require constant adaptation, imposing extra costs and complicating strategic planning. Technological and infrastructural challenges further add to the complexity, as banks must continuously invest in development of information systems to integrate ESG data.

Inadequate ESG data can lead to additional costs or complications for regulated entities, particularly in the financial sector, by increasing the cost of capital or complicating compliance with regulatory requirements. This can result in higher prices for financial services or poorer access to finance, transferring costs from the financial sector to the real economy and individuals. For instance, banks need reliable primary data to report GHG emissions reductions as part of their commitments under alliances like the Net Zero Banking Alliance (NZBA)[24] and the Glasgow Financial Alliance for Net Zero (GFANZ)[25]. Poor data quality directly correlates to higher costs, making it imperative to improve the availability and accuracy of ESG data.

The lack of standardised ESG data and information can hinder the creation or use of financial products linked to sustainability. Critical data, especially needed for compliance with regulations like SFDR, CSRD and the EU Taxonomy, should be readily available in user-friendly formats either for free or at a low cost. This is essential for both public and private sectors to meet sustainability commitments and access international funds from entities like the EU, EIB, EBRD, and CEB. Accurate and reliable primary data prevent reliance on secondary proxy data, ensuring better financial and sustainability reporting.

The recommendations in this chapter address challenges and risks in the Diagnostic Report identified in part 4.1 ESG Data, Risk Management and Disclosure.

4.1 Leveraging Public Authorities Data for Sustainable Finance

Collecting and verifying ESG data, especially from value chains or SMEs, is challenging both for banks and their clients. The Czech Banking Association (CBA) and non-profits concerned with climate change

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[24] https://www.unepfi.org/net-zero-banking/#:~:text=Bank-led%20and%20UN-convened,%20the%20Net%20Zero%20Banking%20Alliance%20is%20a
[25] https://www.gfanzero.com/

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use questionnaires to gather information on sustainability risks. These questionnaires provide key information on clients' impact and financial materiality. However, financial institutions can only hardly create benchmarks from scattered client data. It is important for financial institutions to access databases, applications and information systems that include overall emissions, waste management, circularity, pollution data for widespread use and climate data, mainly with use cases in agriculture finance.

Robust, accurate and regularly updated data from Czech authorities on greenhouse gas emissions, energy consumption, climate development (air, water, soil), and social characteristics is key to assessing the environmental and social impact of companies to which banks provide financing. Access to reliable and comprehensive data is crucial for banks, particularly in the realm of risk management. The ability to make informed decisions based on accurate data directly influences the stability and success of financial institutions and the implementation of EU legislation, among others.

Limitations of Current Tools. Tools like Czech Globe, IRZ or ENEX offer valuable emissions, pollution or climate-related data. however, they are not yet at a level suitable for professional use in banking and risk management. The current limitations include insufficient resolution, lack of comprehensive data sets, and inadequate tools for professional application. For instance, while Czech Globe provides useful climate maps, these maps often lack the necessary detail and precision required for critical risk management tasks, such as the assessment and mitigation of agricultural risks for banks and insurance companies. **The limitations are inevitable as all the data sources were not created with a sustainable finance use case in mind.** Addressing these limitations through technological advancements and enhanced data resolutions is imperative to make these tools professionally viable.

The Necessity of Open Data. Open data is a fundamental resource that banks can leverage to enhance their risk management strategies. The availability of open data allows for greater transparency, enabling banks to assess risks more accurately and efficiently. Through open data, banks can analyse historical trends, forecast potential risks, and develop robust risk mitigation strategies. This data should be readily accessible to ensure that banks can swiftly respond to emerging risks and changes in the financial landscape.

Restricted Data Access with Authentication. While open data provides a foundational base, certain sensitive data sets need to be restricted to protect privacy and proprietary information. For banks, it is crucial to have access to this restricted data through secure means. Authentication methods such as usernames, passwords, and multi-factor authentication (MFA) ensure that only authorised personnel can access this data. This secure access enables banks to delve deeper into specific risk factors, conduct detailed analyses, and develop more tailored risk management approaches.

Compensation of Data Providers. The provision of high-quality data incurs significant costs for data providers. It is essential to address the aspect of compensating these providers to ensure the continuous availability and enhancement of data resources. A balanced approach that includes funding mechanisms or subscription models can help cover the operational costs of maintaining and updating data repositories. This compensation model ensures that data providers can continue to deliver valuable, accurate, and up-to-date information to banks and other stakeholders.

The following figure provides examples of the main databases, information systems and applications managed by state and state-owned authorities that have a significant link to managing sustainability-related risks in financial institutions.

Figure 5: Recommendations Regarding Data Sources for Sustainable Finance

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Authority	Field	Database/ IS/Application	Data Availability	Comment	Recommendation
MoIT	Energy Efficiency of buildings – EPCs[26]	ENEX[27]	Restricted	Not EU Taxonomy aligned, low data quality, low relevance (covers only 1% of buildings)	Compulsory EPCB issuance, provide controls and check on data quality by entry, provide regular updates
CENIA	Pollution and Waste Management	IRZ[28]	Public[29]	Last update 2021, differing methodology over time making it hard to use for financial institutions	Base on the INSPIRE[30] standard, make data chronologically comparable to create timelines
	Environmental Impact Assessments		Restricted		
MoE	Circular Economy	EMAS[31]	Public	Only basic identification data availability, certification is not EU Taxonomy-aligned	Provide more information from non-financial reports of certified entities to create benchmarks, align data with EU Taxonomy
MoLSA	Social and Inclusion Data	data.mpsv.cz	Public	The Ministry of Labour and Social Affairs (MoLSA) collects data on employment rates, collective contracts, and key labour market indicators. However, they do not currently assess the 'S' component within ESG frameworks.	MoLSA should expand its scope to include the evaluation of social criteria in ESG reporting, aligning labour data with broader sustainability and corporate responsibility goals. Gender, inclusion or diversity data is not available in the portal.
SFŽP (State Fund for Environment)	Support Programmes Data	AIS	Restricted	Only basic data is available to the public.	The current public access to support programmes data is limited, providing only basic information. To improve transparency and engagement, SFŽP should expand the publicly available data, offering more detailed insights into funding allocations, project outcomes, and environmental impacts. Additionally, aligning this data with sustainability frameworks like the EU Taxonomy would enhance

[26] Energy Performance Certificate (EPC) within the meaning given in the Energy Performance of Buildings Directive, see https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en
[27] https://www.mpo.gov.cz/cz/energetika/energeticka-ucinnost/odborne-cinnosti/informace-o-prubezne-evidenci-prukazu-energeticke-narocnosti-budov-v-cr--249720/#:~:text=ENEX%20evidence.%20Evidence%20ENEX%20obsahuje%20informace%20z%20dokument%C5%AF%20zpracovan%C3%BDch%20energetick%C3%BDmi
[28] https://www.irz.cz/
[29] https://data.gov.cz/datov%C3%A1-sada?iri=https%3A%2F%2Fdata.gov.cz%2Fzdroj%2Fdatov%C3%A9-sady%2F45249130%2F735425a8395cf16a2a70b5c5559f2248
[30] https://geoportal.gov.cz/web/guest/about-inspire
[31] https://emaseu.cz/emas/

Authority	Field	Database/ IS/Application	Data Availability	Comment	Recommendation
					its value for investors and policymakers.[32]
Academy of Sciences – Czech Globe	Climate Data	Climate maps	Only for research and education purposes[33]	Access to maps but not data, some layers do not have sufficient resolution for professional use, e.g., for risk management of agricultural operations of banks and insurance companies.	Make data available also to financial institutions, enable data testing, create tools for feedback, improve resolution, create APIs for banks and public.

Improving existing tools to meet professional standards will significantly enhance their utility in financial risk management. By addressing these aspects, banks and other financial institutions can fortify their risk management frameworks and contribute to the overall stability of the financial system.

A concrete example can be found in the promotion of transparency of climate and environmental impacts of companies that are expected to comply with Corporate Sustainability Reporting Directive (CSRD) and disclose their CO_2e emissions in accordance with the GHG Protocol (Scopes 1, 2 and 3) and publishing indicators of adverse sustainability impacts in accordance with ESRS. The working group of SFP on data management should discuss possibility of ESG Data Hub development that would enable all companies subject to reporting requirements to collect and upload relevant data in a non-bureaucratic manner, which in turn can be easily accessed by companies in the financial sector.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform.
2. The MoE, MoIT, MoLSA, CHMI, CENIA and other relevant authorities: follow tasks necessary to include sustainable finance use case in further development of their data platforms and extend the data quality, granularity, accuracy and accessibility.
3. The Czech National Bank (CNB): provide guidance for CBA and financial institutions regarding data requests and reporting.
4. CBA and other associations of financial institutions: piloting, testing and implementation.

Roadmap for Implementation

Phase 1: ESG data and information gap assessments (M0-M12)[34]

a) **ESG Data and Information Availability and Quality Gap Assessments** with respect to ten thematic ESRS standards and EFRAG methodologies, EU Taxonomy technical screening criteria and minimum social safeguards, financial sector regulations and ECB requirements, Eco-design Regulation, Corporate Sustainability Due Diligence Directive and EU greenwashing legislation, including review of international good practice.

[32] MoF open data portal on grants can serve as an inspiration: https://opendata.mfcr.cz/topics/dotace.html
[33] https://www.klimatickazmena.cz/cs/?l=76
[34] 'M' stands for 'months from now'

b) **ESG Data and Information Technical Proposals** for data management of the abovementioned regulations, covering all aspects of data processing, including creating, collecting, storing, maintaining, transferring, exploiting and presenting data to deliver information in line with EU Taxonomy.

Phase 2: Develop a national ESG data and information governance system with a special focus on climate change (M12-M24)

In close collaboration with the relevant authorities and the coordinating support role of the MoF, develop a national ESG data and information governance system:

a) A proposal for a **National ESG Data and Information Governance Framework** in line with international good practice.
b) **A legislative proposal, if necessary** to transpose the technical proposal under letter (a) above, including a sound and effective quality control and enforcement framework, ensuring data access to relevant users while maintaining necessary data protection standards.
c) Implementation of the National ESG Data and Information Governance Framework in coordination with SFP members.

Phase 3: Integration and exchange of ESG data among financial institutions and state authorities (M24-M36)

Engage actively with the financial sector in Czechia on ways to support and promote platforms for storing and exchanging ESG data and information among financial institutions and Czech authorities. In particular, the SFP should discuss the following topics:

a) Information support in terms of providing the existing platforms with data interface with respect to ESG public data and information available to the Czech central government.
b) Future development of ESG data and information.
c) Harmonisation of the format, technical features and wording of banking questionnaires considering the potential harmonisation efforts at EU level.
d) Based on the results of the preceding points, preparation of relevant technical solutions and/or legislative proposals.

4.2 Guidance for Financial Institutions in Managing Climate and Environmental Risks

In addition to the task of capital mobilisation, climate and environmental risks management plays a key role for the resilience of financial institutions. The double materiality approach applies here: financial companies should consider both the potential risks and opportunities of climate change and environment on the value of their own portfolio and develop an awareness of the influence of their own investments on the intensification or mitigation of climate change or on environmental goals in general. In both cases, both physical and transition risks should be considered.

In order to avoid stranded assets, it is necessary for the financial institutions to understand the degree of vulnerability and the exposure of assets in their balance sheets to climate and environmental risks. Financial institutions should therefore strategically align their portfolios with the Paris climate goals, calculate the carbon footprint (weighted carbon intensity) for all their relevant portfolios, disclose it in

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accordance with the recommendations of the TCFD, and introduce a risk assessment for climate and environmental risks in investments, participations, project financing and lending.

The Sustainable Finance Platform should initiate and actively support an expert dialogue on the revised role of the CNB in promoting and embedding sustainable finance within their financial stability mandate. The process should focus on exploring the current role and practices of CNB in comparison to changing legal requirements and the supervisory outlook of the EBA in the subject matter and identify key challenges, with a special focus on ensuring proper risk management and availability of good-quality data for performing their duties.

While some measures discussed in EU-wide platforms, such as the introduction of Green Differentiated Capital Requirements (GDCRs) for loan-financed sustainable projects, may be rather controversial, there are many other measures the central banks and financial sector supervisors usually promote in EU countries. **The main aim of central banks in sustainable finance is to systematically measure and reduce exposure to climate and environmental risks in the financial system.**

Firstly, the CNB should prepare a cross-sectoral guide on dealing with sustainability risks. The CNB can draw inspiration, for example, from the Dutch DNB[35] or the Austrian Finanzmarktaufsicht (FMA)[36] in this regard[19]. The CNB guide is intended to standardise and assist supervised entities in taking sustainability risks into account in their business activities and to prepare them for regulatory developments. This initiative will support financial institutions in integrating climate and environmental risks into their risk management systems by providing orientation, guidance and standardised methods and indicators.

Other measures implemented should include risk scorecards divided by particular EU Taxonomy environmental objective (e.g., circular economy), impact measurement by relevant SDG, etc.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform.
2. The CNB: provide guidance for financial institutions for climate and environmental risk management and reporting.
3. The MoE, CENIA, CHMI etc.: provision of data and methodological support.
4. Platform members (financial sector): dialogue and testing of the proposed measures.

Roadmap for Implementation

Phase 1: Development of methods and guidance to limit climate and environmental risks (M0-M18)[37]

a) Conducting expert conferences and workshops on climate risk management for financial intermediaries.
b) CNB Guidelines on dealing with sustainability risks with good practices on methods, key figures and tools.

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35 https://www.dnb.nl/en/green-economy/sustainable-finance-platform/
36 https://www.fma.gv.at/en
37 'M' stands for 'months from now'

c) Special chapter on climate risks in the CNB's Financial Market Stability Report[38].
d) Special chapter on the exposure of Czech banks to transition risks in the Financial Market Stability Report.
e) CNB climate stress test of the Czech banking sector besides the macro stress testing (liquidity and solvency) and micro stress testing already in place.
f) Specific chapters on the exposure of insurance companies and pension funds to transition risks in the Supervision reports[39] on the situation of Czech insurance companies and on the situation of Czech pension funds.
g) CNB climate stress tests of the Czech insurance sector.

Phase 2: Recommendations for the CNB role in sustainable finance (M0-M24)

a) Define a gap and opportunity document on the role of the CNB in promoting and embedding sustainable finance in their financial stability mandate based on practice from other EU countries.
b) Based on the results, a relevant position paper should be developed by the CNB and MoF.
c) Following dialogue with the financial sector, a blueprint for revising the role of CNB in promoting and embedding sustainable finance in their financial stability mandate should be prepared and implemented.
d) CNB to review the implementation of climate risk management in banks, including publication of a best practices report.
e) CNB to also support sharing good practice in measuring and reducing exposure to climate and environmental risks.

4.3 Developing Practice Relevant Data Research

Developing practice-relevant data research in sustainability is crucial for enhancing banks' sustainable finance-specific risk management tasks. Such research provides empirical insights and actionable data, enabling financial institutions to better assess and manage ESG risks. By integrating robust sustainability data into their risk frameworks, banks can make more informed decisions, align their portfolios with sustainability goals, and mitigate potential liabilities. Furthermore, comprehensive data supports compliance with regulatory standards such as the EU Taxonomy, aids in tracking progress towards sustainability targets, and fosters transparency in financial reporting. This ultimately leads to more resilient and responsible banking practices, contributing to the broader objectives of sustainable development and climate risk mitigation.

[38] https://www.cnb.cz/cs/financni-stabilita/publikace-o-financni-stabilite/#:~:text=Hlavn%C3%AD%20publikac%C3%AD%20%C4%8CNB%20v%20oblasti%20finan%C4%8Dn%C3%AD%20stability%20a%20makroobez%C5%99etnostn%C3%AD%20politiky
[39] https://www.cnb.cz/cs/dohled-financni-trh/souhrnne-informace-fin-trhy/zpravy-o-vykonu-dohledu-nad-financnim-trhem/#:~:text=Zpr%C3%A1va%20o%20v%C3%BDkonu%20dohledu%20nad%20finan%C4%8Dn%C3%ADm%20trhem%20obsahuje%20z%C3%A1kladn%C3%AD%20informace

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It is essential to apply the architecture proposed by the Sustainable Capital Flows Report[40] to measure finance contributions towards European Green Deal objectives. It considers transition finance for both financial and non-financial undertakings, using regulatory data and market standards for analysis.

The recommendation in this regard beside those already given above is to enhance cooperation with TAČR in the Sustainable Finance Platform and introduce research projects using Beta or other relevant programmes supporting research in the public sector. The aim of research projects should be aligned with the specific needs of the Platform and its members. However, building on the experience from other countries researched in this Project, an analysis of the exposure of the Czech financial market to carbon risks could be one of the topics. Furthermore, following the example of the EIB[41], standard pricing of CO_2e emissions in investment and financing decisions can be explored. This would help to include the costs of CO_2e emissions in profitability calculations.

The MoF and CNB should invite Czech financial institutions to participate in a nationally coordinated Paris Agreement Capital Transition Assessment (‘PACTA’) analysis to provide mirroring information to the NECP, POK and SEK. In a PACTA analysis, financial institutions submit their portfolios, which are examined at sector level using scenario analyses with regard to their CO_2 intensity. The result is a report that shows how compatible the domestic credit and investment portfolios are with a decarbonisation path set by the Paris Agreement. Alternatively, this exercise can also be aligned with the NECP, SEK and POK goals to show the current status of progress in private sector funding of decarbonisation. Again, the MoF should consider TAČR support for this project.

Responsible Authorities

1. The MoF: guidance and coordination via the Sustainable Finance Platform.
2. Platform members (financial sector, CNB, other authorities): definition of data requests. cooperation in PACTA exercise.
3. The Czech National Bank (CNB): provide guidance for CBA and financial institutions for data requests and reporting.
4. The MoIT, MoE: provision of necessary guidance regarding compatibility of outputs of research projects with NECP, SEK and POK decarbonization targets and private sector funding participation.
5. TAČR: providing funding of data-research-related Platform projects.

Roadmap for Implementation

Phase 1: Research projects analysing exposure of the Czech financial market to carbon risks and other issues identified by the Sustainable Finance Platform (M0-M24)[42]

The research projects aim should be aligned with specific needs of the Platform and its members.

a) Technical proposal development.
b) Project preparation and submission to TAČR.

[40] https://finance.ec.europa.eu/publications/platform-sustainable-finance-intermediate-report-monitoring-capital-flows-sustainable-investments_en#:~:text=Monitoring%20the%20extent%20to%20which%20capital%20flows%20are%20being%20redirected
[41] EIB Energy Lending Policy – Annex V, https://www.eib.org/en/publications/eib-energy-lending-policy#
[42] ’M‘ stands for ‘months from now‘

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c) Project implementation.

Phase 2: Monitoring framework on the flow of private capital to fill the sustainable investment gap (M24-M36)

Design the architecture to measure the effective contribution of finance towards the objectives of the NECP, SEK, POK following involvement of PACTA or a similar platform:

a) A technical proposal on the flow of private capital to fill the sustainable investment gap.
b) Project preparation and submission to TAČR.
c) Project implementation.

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