Deliverable 6:

Final Report

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REFORM/2021/OP/0006 Lot 1

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Funded by the European Union

1. Context of the Project

The Secretariat-General Taskforce for Reforms and Investments (SG REFORM), formerly the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission aids in implementing structural reforms by utilizing EU funds and technical expertise. Czechia requested support under the Technical Support Instrument for sustainable finance, which the European Commission approved.

The European Commission has taken steps to promote sustainable finance, including adopting the EU Taxonomy for sustainable activities and the European Climate Law, targeting net-zero emissions by 2050. The COVID-19 pandemic has strained budgets, emphasizing the need for collaboration in financing climate adaptation.

Sustainable finance agenda represents a challenge for the Czech financial market due to its complexity and broad scope. At the same time, it offers an opportunity for the market to contribute to the decarbonisation of the Czech economy.

To align with sustainability goals, Czechia must effectively mobilize private capital through developing new financial instruments including blended finance and risk-sharing mechanisms, enhancing data transparency, managing climate risks, and expanding sustainable projects. With technical support, the Czech Ministry of Finance aimed to map frameworks, formulate policy recommendations, and ensure market alignment with these goals. DG REFORM launched a request for consultancy services to provide a report and roadmap for implementing sustainable finance initiatives. PricewaterhouseCoopers (PwC) was contracted for the Assignment.

2. Beneficiary Authority

The main beneficiary of the contract was the Ministry of Finance of the Czech Republic, namely Department 69 – Sustainability Policies. The Department participates in the development of strategies and methodologies for EU and national policies of the European Green Deal and sustainable financing, especially in cooperation with the Ministry of the Environment, the Ministry of Industry and Trade and the Ministry of Finance, including the impacts on public budgets. It analyses low-carbon policies and proposes measures to strengthen the economy and minimize adverse impacts on the environment and society as well as coordinates the development of ESG in public administration and identifies investment opportunities in sustainable financing.

3. Needs Addressed

The Assignment was divided into six deliverables including this final report.

Deliverable 1: *Kick-off meeting, Inception report and Identification of stakeholders*

The objective of this deliverable was to kick-off the project, produce an inception report, identify relevant stakeholders in Czechia that would be engaged and contribute to the various stages of the project, split into a core stakeholder group and an extended stakeholder group that would enable coordination and implementation of a future sustainable transformation policy in Czechia.

Deliverable 2: *Good Practice Report from Other National Sustainable Finance Strategies*

This deliverable served as a comprehensive overview that sheds light on the current practices, challenges, and innovations in sustainable finance across seven EU Member State in order to identify potential solutions for addressing the shortcomings of the Czech financial market based on good international practice.

Deliverable 3: *Diagnostic Report*

The diagnostic report served as a starting point for the creation of policy options under deliverable 4. It identified the pain-points and key risks that needed to be addressed to enhance the capability of the Czech financial market to mobilise finance and give a clear picture in quantitative terms of the finance gap to be addressed.

Deliverable 4: *Report on Public Policy Options on Sustainable Finance, Action Plan and Roadmap for Implementation*

The purpose of this deliverable was to propose an action plan and roadmap developed together with the core stakeholders and drawing on Deliverable 3. It clearly indicates timelines, actors, and next steps to serve as a starting point for the implementation phase of the recommendations and include an actionable roadmap.

Deliverable 5*: Capacity Building, Knowledge Sharing*

The contractor organised workshops to build the capacity of the Czech authorities, related to the operationalisation of implementing sustainable finance relevant to the Czech context.

Deliverable 6*: Final Report*

The purpose of this deliverable is creating a report communicating the project's context, activities, and findings to both internal and external audiences. It aims to provide a clear presentation of the project's needs, methodologies, key deliverables, and expected impacts, alongside preparing social media content and visual materials for public dissemination.

4. Methodology, Approach and Key Deliverables

Deliverable	Methodology and Activities Undertaken
Deliverable 1 – Inception Report	Production of an inception report, identification of relevant stakeholders in Czechia that would be engaged in and contributed to various project stages.
Deliverable 2 – Good Practice Report	The Good Practice Report built upon an already-existing report previously made by ICF for SG REFORM in the context of a similar project for Poland. The report involved the selection of seven EU Member States (France, Ireland, Lithuania, Italy, Austria, Germany, Netherlands) based on socio-economic criteria and sustainable finance maturity. Detailed analyses were conducted to assess the capital markets, barriers, and policies in these states, with ICF focusing on five countries and PwC reviewing Germany and the Netherlands. PwC further enriched the report with legislative impact analysis and case studies, improving readability but postponing benchmarking to a future report. A comparative analysis was performed, identifying best practices applicable to the Czech market, supported by a literature review on sustainable finance. The results were shared during introductory workshops.
Deliverable 3 – Diagnostic Report	The report involved comprehensive desk research, drawing from sources such as EU institutions, OECD, EIB, EBRD, and various Czech organizations, to gather information on sustainable finance. Stakeholder engagement was a key component, with activities including presentations at the Ministry of Finance's Sustainable Finance Platform sessions. Four half-day workshops were organized to raise awareness and align various stakeholders on sustainable finance and ESG matters. Additionally, hybrid consultation workshops and structured meetings were held with financial sector associations, government bodies, and other relevant entities. To assess awareness and readiness, questionnaire surveys were conducted among four stakeholder groups in Czechia between February and April 2024. Resulting in a comprehensive overview of the Czech financial market, the report focuses on mobilizing finance for investments and products compliant with the EU taxonomy, in alignment with the EU's Sustainable Finance regulatory framework and related initiatives. It includes a recent summary of this framework, highlighting pain points and key risks that need addressing to enhance the Czech financial market's capacity to mobilize finance effectively. Additionally, the report provides a clear, quantitative depiction of the existing finance gap that must be bridged.
Deliverable 4 – Report on Public Policy Options on	The report builds on the challenges identified in the Deliverable 3. 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

Sustainable Finance	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, 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.
Deliverable 5 - Capacity Building	During the project, three series of workshops were organized, namely the introductory workshops, alignment workshops and the final workshops.
Deliverable 6 – Final Report	The Final Report aims to provide a clear overview of the project's needs, methods, key deliverables, and expected impacts, and includes social media content and visual materials.

5. Communication with Key Stakeholders and Their Roles

The transition to a sustainable finance ecosystem in Czechia requires coordinated efforts among a diverse group of stakeholders, including government entities, financial institutions, businesses, civil society organizations, and international partners. This sentiment was reflected during the course of the project. The project began with an introductory presentation that engaged identified stakeholders, outlining the objectives, timeline, and expected outcomes while emphasizing the importance of their involvement. A series of workshops were conducted to raise awareness about sustainable finance and ESG issues, aligning stakeholders on common goals and providing a platform to discuss challenges and opportunities in the Czech financial market. Bilateral interviews with public sector bodies were instrumental in understanding the roles and perspectives of various government entities, identifying policy and regulatory barriers, and exploring potential solutions. Among those, a special recognition goes to the representatives of the Ministry of Finance, Ministry of Environment and Ministry of Industry and Trade for their repeated inputs into this project.

Within the private sector, the Czech Banking Association played a crucial role in the dialogue process through regular consultations focused on sustainable investment guidelines, transparency, and the adoption of green finance products. Furthermore, a comprehensive survey assessed the awareness, readiness, and capacity of key stakeholder groups, providing a quantitative basis for identifying market gaps and opportunities. Final workshops consolidated findings, shared project outcomes, and gathered stakeholder feedback, which was vital for refining recommendations and ensuring alignment with stakeholder needs. Lastly, feedback on the proposed policy options was also collected through an online survey which was available to the members of the Sustainable Finance Platforms.

6. Key Findings and Lessons Learned

Czechia faces significant challenges in transitioning to a low-carbon economy due to its high emission intensity, rooted in historical reliance on coal and a robust industrial sector. Geographical constraints and complex approval processes have contributed to a low share of renewable energy sources.

For Czechia to achieve its decarbonization goals, significant private investment—estimated at €61 billion—is essential. The government's sustainable finance policy should primarily contribute to mobilizing private capital while ensuring effective use of the public funds to bridge the investment gap and mitigate transition risks like stranded assets while capitalizing on benefits such as financial stability and foreign investments. Although lagging behind countries like Germany, France, and the Netherlands in sustainable finance product adoption, Czechia is increasingly engaging with the sustainable finance agenda, aiming to coordinate efforts and draw on lessons from these countries' successes.

In Czechia, the central government, particularly the Ministry of Finance, leads the sustainable finance agenda, establishing guidelines for green investments and ensuring transparency. While multiple ministries are engaged in sustainable finance agenda, progress is hindered by limited coordination and the absence of a cohesive strategic vision. According to the stakeholders, the Czech National Bank's involvement is limited, and there's a need for better communication and information resources on sustainability.

The Czech financial sector, led by associations like the Czech Banking Association, promotes sustainable finance through initiatives and commitments, such as the Memorandum for Sustainable Finance. However, the sector believes the Czech National Bank should play a more active role in fostering an ESG-friendly environment and aligning with EU supervisory approaches.

As a result, the following thematic and sectoral pillars of sustainable finance were recommended:

1. Public Sector-Related Recommendations
- 1.1 Addressing Sustainable Finance in the State Budget
- 1.2 Fostering Development of Sustainable Infrastructure

2. Promoting Sustainability-Aligned Investment in Non-Financial Undertakings
- 2.1 Promoting Sustainable Finance with Financial Instruments
- 2.2 Increasing Motivation to Invest in Sustainable Activities
- 2.3 Standardisation of Sustainable Finance Instruments and/or Products

3. Sustainable Finance Framework and Governance
- 3.1 Sustainable Finance Platform
- 3.2 Promoting Financial Education in Sustainability
- 3.3 Communication Plan for Sustainable Finance

4. Sustainable Finance Data and Risk Management
- 4.1 Leveraging Public Authorities Data for Sustainable Finance
- 4.2 Guidance for Financial Institutions in Managing Climate and Environmental Risks
- 4.3 Developing Practice Relevant Data Research

7. Expected Results and Impact

It is expected that Czechia, having been closely involved in implementation of the contract and consulted by the contracting authority on all draft deliverables, considers the deliverables through its internal mechanisms and would follow up on the work and recommendations contained in the final deliverables.

Although subject to other contributing factors, the tasks and deliverables of the contract and the associated outcomes should over the longer-term contribute towards:

- Improving the policy, regulatory and supervisory capacity of the Czech public administration to facilitate the uptake of sustainable practices by the financial and corporate/SME sectors.
- An enhanced understanding and readiness of the financial and corporate/SME sectors to benefit from opportunities brought by the sustainable transition.
- Expansion of sustainable finance flows and practices both in public and private sector.

Achievement of the outcomes and contributing to a longer-term impact of this contract depends largely on the follow-up and implementation of the deliverables by Czechia and subsequent enforcement, as well as on wider policy conditions, which remain outside the responsibility of the European Commission and the contractor.