



FINANCING CLIMATE ACTION

ANALYSIS OF CLIMATE FINANCE OPTIONS FOR SMALL AND MEDIUM-SIZED MUNICIPALITIES IN THE CZECH REPUBLIC

On behalf of:



Federal Ministry
for the Environment, Nature Conservation
and Nuclear Safety



European
Climate Initiative
EUKI

SEVEN  THE ENERGY EFFICIENCY CENTER, z. s. r. o.

of the Federal Republic of Germany



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VÁCLAV ŠEBEK, JAKUB KVASNICA, JIŘÍ KARÁSEK, NATÁLIE ANISIMOVA

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Project number: 200771

Contact us at

Visit us at

BEACON_HelpDesk@guidehouse.com, seven@svn.cz

<https://www.euki.de/beacon>

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The information and views set out in this study are those of the author(s) and do not necessarily reflect the official opinion of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

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1/

Introduction

Cities and municipalities are becoming an indispensable part of climate policy. The goal to achieve carbon neutrality by 2050 will affect a myriad of municipal agendas. Even today, a lot of cities and municipalities are concerned with the issue of climate protection more than might seem. Indeed, a number of measures to reduce greenhouse gas emissions are on the mainstream agenda already, namely those pertaining to energy savings, waste reduction, land-use planning that takes increasing account of water resources and use, the integration of renewable sources into heating systems and many others. These are measures that bring many benefits to cities in addition to emission savings. The range of benefits is broad – from financial savings to environmental improvements for residents.

Financing is a key factor for implementing climate action. In general, there is a wide array of choices, from international, European and national funds to Guaranteed Energy Services (EPC), Public Private Partnership (PPP) projects or community financing. The EU-level funding under Cohesion Policy plays a particularly important role in public infrastructure investment in most CEE and SEE countries. However, these instruments and support programmes vary depending on the country, the existing policy framework and the capacity, competences and structure of local authorities.

The European Union aims to achieve climate neutrality by 2050 to meet its commitments under the Paris Agreement. The EU's draft budget for the period 2021–2027 is expected to be an impressive driver towards climate neutrality, especially in terms of renewable energies, energy efficiency and sustainable transport. Through the Roadmap for European Recovery and in view of the 2030 climate targets, spending on climate action programmes will more than double compared to the current budget.

BEACON municipalities have repeatedly identified the lack of funding and / or difficulty in accessing adequate funding as one of the main barriers to implementing climate change mitigation measures. Most municipalities have some experience in using structural funds through their respective regional operational programmes, although not in a satisfactory amount and / or in the most strategic way. Many municipalities tend to prioritise climate change measures based on known availability of funding rather than their priority needs. Generally, grants with high funding levels are preferred to minimize the risks taken

by municipalities. More innovative financial instruments are either not known, not considered appropriate in their design, or are considered too risky. Municipal employees often do not have the competence to assess the feasibility of financing potential investments. Investment or development bank offers are often considered unsuitable for the specificities of smaller municipalities.

The aim of this study is to analyse the possibilities of climate financing at the municipal level in the Czech Republic in order to provide a basis for better strategic financial planning and development of local climate protection projects. First, the study focuses on the identification of barriers to obtaining the necessary financing and ways to address and overcome them. It then characterises the current financing instruments, including the key conditions for obtaining financing, of which the most important financing instruments applied in the Czech Republic are presented. The financial instruments are discussed in detail and linked to their areas of support. The last chapter deals with other forms of financing, including PPP projects, the EPC method, and debt financing.

Most municipalities have some experience in using structural funds through their respective regional operational programmes, although not in a satisfactory amount and / or in the most strategic way.





Analysis of the needs of small and medium-sized municipalities in financing local climate protection measures

Based on an analysis of the needs of small and medium-sized municipalities in financing local climate protection measures, several areas were identified where these municipalities face shortcomings:

- Capacities
- Routine awareness
- Know-how
- Specific solutions

The first of these shortages are found in the capacities of the municipality. Small municipalities usually do not have an appointed staff member specifically designated to deal with climate finance instruments or to deal with energy management of the municipality as such. In addition, energy management has not been introduced in most municipalities. When a municipality has to prepare an investment project for which external financing is to be used, this task is usually taken over by an existing municipal staff member in addition to their day-to-day work. However, this person may not have sufficient capacity and know-how (see below) to ensure the quality and success of the project.

Capacities are followed by routine awareness, meaning staff is regularly informed of current available subsidy mechanisms. Subsidy schemes, their calls for proposals, and other available financial instruments evolve over time and focus on different areas (some of which may be of interest or use to municipalities and some of which may not). It is therefore advisable to have a sufficient overview of them, which can often be quite time-consuming and thus financially demanding for smaller municipalities to secure on their own.

An equally important component is the know-how required in the field of preparation of a specific projects and the processing of grant applications, without which the quality of the project processing may be diminished and the chances of successfully obtaining the requested grant may be lessened. Moreover, climate protection projects are characterised by a wide range of construction and technological measures, which are usually not sufficiently covered in terms of quality and knowledge by ordinary municipal staff.

The need for specific solutions is essential when a municipality has to address measures falling into a certain area (e.g. traffic routes, new heating sources or

financing of green areas), for which it is already necessary to provide a specialist in the area. Municipalities usually do not need to know everything, but rather just the way to address a specific project.

The use of external services is an appropriate solution to eliminate the above-mentioned shortcomings or to meet the needs. The awareness of the municipality's employees can be ensured by means of external thematically focused professional seminars and trainings. These should be attended at least once a year, but due to some time-limited grant calls it is better to attend them more frequently. Ensuring staff is regularly informed can greatly assist municipal staff in the initial preparation of a project plan and in the selection of a suitable subsidy scheme. Capacity, know-how and specificity of the solution can then be addressed by providing an expert – a specialist in the field or an energy manager – to help the municipality prepare and implement the investment plan, including securing the subsidy. In this respect, this can be the municipality's own employee, however, in the case of small municipalities it is advantageous to go down the path of shared expertise and hire a part-time employee (e.g. even only for monthly consultations so a full-time employee does not have to be used) who is in charge of projects of several municipalities. With larger municipalities this may be a full-time municipal energy manager. Larger municipalities will benefit from the establishment of their own energy management department, including the introduction of a proper energy management system.

Moreover, climate protection projects are characterised by a wide range of construction and technological measures, which are usually not sufficiently covered in terms of quality and knowledge by ordinary municipal staff.



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Barriers to obtaining the necessary financing

Securing the necessary funding to implement a project is a key issue. However, there may be various obstacles to securing funding, particularly of an administrative and financial nature.

Summary of identified barriers:

- Administration (high burden, requirements for preparation of project documentation and other documents in the grant programme, approval process within the municipality, public procurement, project monitoring)
- Capacities (human, time, low qualified staff)
- Lack of own financial resources
- Negotiating with managing authorities on the eligibility of costs, compliance with the conditions of subsidy schemes
- Lack of awareness of the municipality about subsidy opportunities
- Excessive complexity or large scale of the project
- Insufficient risk identification

Administrative barriers

Administrative barriers include a range of activities from the actual decision-making or approval process within the municipality (particularly regarding the approval or adjustment of the municipality's budget or budget outlook), through the project preparation (including the settlement of comments from any authorities concerned) and the preparation of all required (project) documentation in accordance with the conditions of the subsidy title, to the administration of the public procurement and the implementation of the project. Another complication can be the monitoring of the project during its sustainability period. According to an article on municipalities' experience in obtaining grants, *"Preparing and submitting a grant application is the easiest part of the whole process. The implementation and sustainability phases, on the other hand, are becoming increasingly complex."* [1]

Administrative barriers are particularly evident when the municipality does not have sufficient capacity in terms of time and human resources. The projects in the municipality are mostly handled by municipal officials as part of their work. However, most of the regular staff do not have sufficient qualifications



“Preparing and submitting a grant application is the easiest part of the whole process. The implementation and sustainability phases, on the other hand, are becoming increasingly complex.”



to successfully manage all the processes of obtaining a subsidy, i.e. finding a suitable subsidy title, proper study and compliance with all the conditions of the subsidy title, quality project preparation and administration during project implementation. This also results in increased time and financial requirements for possible increase in the qualifications of the municipality’s own staff and especially for the successful completion of all the above-mentioned steps. There are often three main reasons why a project is not successfully completed – namely the failure to meet formal requirements, non-approval due to poor project quality, and withdrawal of the grant application by the applicant. *“The time spent on the preparation of applications that do not pass due to the failure to meet the formal requirements is then wasted.”* [2]

Financial barriers

Administrative obstacles are followed by financial barriers. The first may be the lack of the municipality’s own finances. Most financial support mechanisms (subsidies) offer reimbursement of project costs up to a certain amount. Moreover, these costs must fall under the category of the so-called eligible costs according to the conditions of the financial mechanism. The remaining costs for the project implementation must be provided by the municipality, either from its own budget (multi-municipal budget) or through a loan. However, a loan increases the municipality’s indebtedness and puts a strain on the municipality’s budget for years to come.

Further complications may arise when negotiating with the managing authorities about the deductibility of costs. *“Even prior consultation with the grant*



“Even prior consultation with the grant provider does not guarantee the unquestionable deductibility of eligible expenditure from a public contract at any time in the future.”

provider does not guarantee the unquestionable deductability of eligible expenditure from a public contract at any time in the future.” [1] Thus, it may happen that the municipality does not receive everything it was originally promised in the Grant Decision. This may be caused, among other things, by strict conditions of the grant programme, the ambiguity of the rules that have changed over time, and especially their different interpretations. “This can lead to reduction of subsidies due to trivial and insignificant mistakes.” [2] Reduction of the subsidy may also take place if additional irregularities or breaches of budgetary discipline are revealed during project audits. “All applicants remain subject to checks by higher instances, e.g. audits, after implementation and during the sustainability period. If any irregularity is detected and confirmed after the funds have been disbursed, the implementer is obliged to return the funds.” [2] The most common irregularities are:

- infringement of the tender guidelines affecting the selection of the supplier,
- violation of the Public Procurement Act,
- reimbursement of expenditure which is ineligible at the time that the payment request is paid
- failure to meet any of the monitoring indicators set out in the Decision/ Contract [2].

The aforementioned may then complicate the project implementation if the municipality does not have sufficient financial reserves to cover a possible reduction of the subsidy.

Other barriers may involve low motivation of municipalities to implement climate protection measures, insufficient awareness of the municipality about subsidy opportunities, excessive complexity or large scale of the project or insufficient project risk identification related to the financial or material performance of the project during implementation. This may result in additional withdrawal or cancellation of the project.

3.1 THE MOST COMMON MISTAKES IN EXTERNALLY FUNDED PROJECTS

As has been said in the previous chapter, a number of barriers and mistakes can occur in the case of obtaining grants. This can result not only in the reduction of the awarded funds, but also in the rejection by the managing authority or suspension or even cancellation of the project by the applicant, usually due to the lack of funds, either because of the reduction of the subsidy or increase in the project costs. It is therefore advisable to bear these mistakes in mind and to try to avoid them when preparing a project for grant funding, but also during its implementation and subsequent monitoring.



The most common mistakes involve [2][22]:

- **When preparing a project**
 - Poor project quality or insufficient or poorly prepared project documentation or project design (unresolved scope, feasibility, justification for the need to implement the project)
 - Insufficient identification of risks associated with the financial and material performance of the project during implementation, failure to ensure sufficient financial backing of the project (with regard to the timing of disbursement of funds and possible risks of reduction of allocated funds)
 - Selection of the wrong subsidy title, insufficient examination of relevant documents
- **When processing an application**
 - Failure to meet the deadlines
 - Non-compliance with formal requirements and admissibility conditions (incorrect, inaccurate or undelivered data, failure to provide required documents, ineligibility of the applicant, missing signatures)
- **When implementing a project**
 - Non-compliance with deadlines, non-compliance with the conditions for granting the subsidy
 - Failure to comply with the Supplier Selection Rules, violation of the Public Procurement Act
 - Insufficient or late consultation of changes with the managing authority
 - Failure to comply with budgetary discipline and other financial conditions (e.g. rules on eligibility of project costs, classification of activities and expenditure in the approved budget)
- **After project implementation**
 - Failure to meet deadlines for submission of monitoring reports, failure to provide all required documents
 - Failure to meet binding project indicators

Reasons for project rejection not caused by the applicant include rejection due to insufficient allocation of funds in the Fund (in case the allocation has been exhausted). This situation cannot be avoided.



3.2 BASIC OPTIONS FOR TACKLING BARRIERS

It is also worth mentioning options that can help overcome the above-mentioned barriers to obtaining the necessary funding. There are two main approaches – internal and external.

The principle of the internal (in-house) approach is that the municipality should provide an experienced staff member who will specialise in project preparation and ensure their management and financing. This does not have to be a full-time job, or it can be supplemented by other relevant activities within the municipality's operations, but the emphasis should be on ensuring that the staff member is qualified and trained, that his/her competencies are defined and that he/she is motivated to improve the quality of project processing. The municipal officer should be in close contact with both the municipality's finance department and the municipality's decision-making body.

The external approach consists of delegating part of the competencies or work to an external worker or consultancy company. They can help with the processing of the grant application and the implementation of the whole investment process. According to the agreed scope, they can provide the client with consulting activities, identification of the subsidy title, assistance in project preparation, securing external financing, administration of the subsidy process and preparation of mandatory annexes with all necessary documents. An external worker or company can also help with organization of the tender procedure, implementation, and subsequent monitoring of the project. In addition, part of the money paid to the consultation company also becomes an eligible cost of the subsidy [1] and can be partially reimbursed by the subsidy. However, it is always necessary to consider what is more beneficial for the municipality (in terms of finances and quality of workmanship) – whether it is an in-house employee or an external consultant or a combination of the two.

Another option for the external approach is the use of databases and tools for project assessment and evaluation. Such possibilities are offered, for example, by the Triple-A project, which has developed a database of aspects of energy efficiency project financing, including risks in project implementation, and a standardised project assessment tool. The tool is able to assess financial instruments and risks at an early stage of project preparation, identify investment parameters based on selected key performance indicators or match investment plans to possible financing schemes.

4/

Current financing instruments for local climate action in small and medium-sized municipalities

Climate change poses a serious environmental, economic and social problem. Climate action is the main instrument for climate protection policies and activities and for protecting the environment as a whole. A frequent disadvantage of climate protection measures is their long economic payback period or the cost of implementation, which smaller municipalities in particular cannot afford from their budgets. For this reason, a number of financial support mechanisms and instruments have been developed to facilitate the implementation of climate protection measures.

Based on the sources of the funds, local climate finance instruments can be divided into the following sources:

- **European funds and resources – e.g. European Structural and Investment Funds, European Regional Development Fund, Cohesion funds, etc.**
 - Operational programmes (IROP, OPE, rural development OP)
 - Special programmes and projects (LIFE programme)
 - Grants for science and research (Horizon 2020)
 - Soft loans (e.g. the so-called innovative financial instruments allowing soft loans from European funds to cover eligible project costs)
- **National funds or regional budgets programmes**
 - National subsidy programmes (EFEKT, New Green Savings, National Programme Environment)
 - Programmes drawing on the EU ETS emission trading system (New Green Savings, Modernization Fund, Innovation Fund)
 - Subsidized loans (e.g. from the State Environmental Fund of the Czech Republic or the Czech-Moravian Guarantee and Development Bank)
 - Subsidies for science and research (TA CR programmes)
 - Regional funds and budgets
- **Special sources of funding**
 - Special subsidy programmes or earmarked funds (e.g. Norway Grants)
 - Private support from entrepreneurs (this can be a company promotion or a strategy where the company spends money on climate protection projects)



- Crowd-funding (projects subsidised by citizens in general or directly by citizens of the municipality in question)
- Municipal bonds
- **Own sources**
 - Municipal / city budget (e.g. special budget items intended for climate action or energy saving projects)

The funding available for climate action often comes from dedicated funds. From these funds, funding is then channelled through operational, national and other subsidy programmes, which allocate it according to specific rules and to specific areas or types of support. Another option is the auxiliary financial instruments, which include mainly soft loans – for example, loans from the State Environmental Fund of the Czech Republic or from the so-called Innovative Financial Instruments, which can be used to obtain funding to cover the costs of projects submitted under the Operational Programme Environment (i.e. part of the project is covered by the subsidy, the rest is covered by a soft loan which can replace own sources of finance).

4.1 WHICH MEASURES CAN BE FINANCED

The range of measures that can be financed is very large and, to some extent, almost anything that is relevant for climate protection can be financed, or that is allowed under the conditions set for the individual subsidy programmes and financial mechanisms.

Within the Czech Republic, the conditions of financial support mechanisms and subsidy programmes are set so as to cover all target areas as far as possible and at the same time to avoid excessive overlapping of the scope of individual programmes. Therefore, the subsidy programmes complement each other rather than address the same issues (e.g. the New Green Savings programme supports the insulation of residential buildings in Prague, while outside Prague the insulation of residential buildings is supported by the Integrated Regional Operational Programme).

In most cases, only one selected subsidy programme (and possibly a soft loan) can be used to finance climate protection measures. However, certain programmes or calls allow a combination of funding from several sources. In this respect, smaller and medium-sized municipalities as well as poorer regions are favoured. It is therefore advisable to carefully study the conditions of the given programme.

The table below presents an overview of the most important financial support instruments and the areas of their support in terms of their use by municipalities, their subsidiary organisations or municipally owned companies.

Table 1: Overview of the most important financial instruments and their areas of support

| PROGRAMME | AREA OF ACTION | | | | | | | |
|--|---------------------------|---|---------------------|------------------|--|--------------------------|----------------------------------|-----------------|
| | Energy efficient projects | Concept documents, project preparation and processing | Sustainable economy | Waste management | Transport and transport infrastructure | Technical infrastructure | Training and consultancy support | The Environment |
| The EFEKT Programme | ● | ● | | | | ● | ● | |
| Energy savings with reason | ● | ● | | | | | | |
| Operational Programme Environment (OPE) | | | | | | | | |
| 1.1 Support for energy efficient measures | ● | | | | | | | |
| 1.2 Support for renewable energy | ● | | ● | | | | | |
| 1.3 Promoting climate change adaptation, risk prevention and disaster resilience | | | | | | | ● | ● |
| 1.4 Promoting sustainable water management | | | | ● | | ● | | |
| 1.5 Promoting the transition to a circular economy | | | | ● | | | | |
| 1.6 Strengthening biodiversity, green infrastructure in the urban environment and reducing pollution | | | | | | | | ● |
| Boiler subsidies | ● | | | | | | | |
| New Green Savings | ● | | ● | | | | | |
| National Programme Environment | ● | ● | ● | ● | | ● | ● | ● |
| Integrated Regional Operational Programme (IROP) | | | | | | | | |
| SC 2.1 Promoting sustainable multimodal urban mobility | | | | | ● | | | |
| SC 2.2 Strengthening nature conservation, biodiversity, green infrastructure in the urban environment and reducing pollution | | | | | | | | ● |
| SC 4.1 Improving access to inclusive and quality services in the field of education, training and lifelong learning through infrastructure development | | | | | | | ● | |
| SC 4.4 Strengthening the role of culture and tourism in economic development, social inclusion and social innovation | | | | | ● | | | |
| SC 5.1 Promoting integrated social, economic and environmental local development and cultural heritage, tourism and security outside urban areas | | | | | ● | | | ● |
| Rainwater programme | | | | ● | | | | ● |
| Investment fund | | | ● | | | | | |
| Operational Programme Transport (OPT) | | | | | ● | | | |
| Support for the revitalization of the area 2021 | | | | | | | | ● |
| Supporting rural development 2021 | | | | | | | | |
| Support for rural renewal and development (municipalities with population under 3,000) | ● | | | | ● | ● | | |
| Support for municipalities with 3,001 – 10,000 inhabitants | ● | | | | | | | |
| Support for municipalities with more than 10,000 inhabitants | | | | | ● | | | |
| Support for government-recommended regional development projects 2021 | | | | | ● | | | |
| Restoration of municipal and regional property after natural disasters in 2020 | | | | | ● | | | ● |
| Housing Support Programme 2021 | | | | | | ● | | |
| Programme 129 410 - Support for the construction and technical upgrading of water supply and sewerage infrastructure III | | | | ● | | ● | | |
| Program 129 280 "Promotion of water retention in the landscape – ponds and reservoirs" | | | | | | | | ● |
| Operational Programme Fisheries 2021-2027 | | | | | | | | ● |
| Agricultural and Forestry Support Guarantee Fund, a.s | | | | | | | | ● |
| Landscape management programme | | | | | | | | |
| ELENA | | ● | | | | | | |
| Loan from RRF | | | | | | ● | | |
| Municipality 2 | ● | | | | ● | ● | | |
| Programme TRANSPORT 2020+ (TA CR) | | | | | ● | | | |
| Environment for Life Programme (TA CR) | | | | ● | | | | ● |
| The EU LIFE programme | | | | ● | | | ● | ● |
| Modernization fund | ● | | ● | | ● | ● | | |

Source: SEVEn, based on the programme documents of the above-mentioned financial measures

Legend to areas of support

(each area involves more than one activity; subsidy and support programmes always support some activities in a given area)

Technical infrastructure / Street lighting, Local Roads, Engineering networks, Auxiliary equipment, Drinking water supply

Transport and transport infrastructure = Technology, Management, Administration, Traffic Communications

Waste management / Drainage and waste water treatment, Waste management, Circular economy

Concept documents, project preparation/processing / EPC support – document preparation or project processing, Energy management implementation, Local energy concept / Action plan, Energy assessment of the project, Obtaining a subsidy (administration)

The Environment / Ponds and water infrastructure, Territory revitalization, Landscape management, Biodiversity, A Forestry Manager (purchase of equipment, forestry, wood processing), Fisheries measures

Education / Consultation, Educational events, Education in the field of ESP and climate protection (publications and other products)

Energy-saving projects / Energy-saving measures, Reconstruction of heating systems, Reconstruction of the heat source, Energy-saving measures in buildings using the EPC method, Construction of energy-saving buildings

Sustainable economy / Renewable resources, Low-emission and sustainable economy

4.2 KEY CONDITIONS FOR THE PROVISION OF FUNDS

The granting of funding is always determined by the fulfilment of the conditions of the specific subsidy title or programme, or the calls under which the applicant is applying for the subsidy. The most common conditions are:

- Funding is granted only for eligible expenditure (specified by the grant programme) or for specific types of products (meeting the parameters set by legislation or standards)
- It is necessary to meet the administrative requirements (submission of relevant documents and forms)
- It is necessary to provide a feasibility study, a project proposal, or a finished project ready for implementation
- The project cannot be funded through another subsidy mechanism – exceptions for the combination of funding are stated in the programme conditions
- Establishment of project indicators (monitoring of the project results or reporting of project sustainability) is required and must be met during the sustainability period

Depending on the type of a programme, funds are disbursed either before the implementation (ex ante) or after (ex post), with each option requiring certain conditions to be met, again according to the specifics of the support programme.

In case of non-compliance with the conditions of the subsidy programme, or the Decision on the grant/contract award, or even if irregularities are found during one of the inspections in the course of the project sustainability period (the period after the project implementation), the allocated grant may be reduced retroactively and the implementer must return the funds. [2].

4.3 SUPPORT FOR THE ELABORATION OF STRATEGIC DOCUMENTS AND ACTION PLANS FOR SUSTAINABLE ENERGY AND CLIMATE

The main instrument in the area of support for the preparation of concept documents is the State Programme to promote energy savings, the “EFEKT Programme.” Within the subprogramme No. 2: *P2 Support for energy efficient strategy, 2G activity – Development of territorial energy concept and local energy concept* it is possible to obtain a subsidy for the development of Local Energy Concept – the amount of subsidies (for 2021) is shown in the table below.

Table 2
Parameters of the subsidy for the preparation of the Local Energy Concept under the EFEKT programme [3]

| | Municipalities and voluntary associations of municipalities with... | | |
|--|---|--------------------------|------------------------------|
| | up to 3,000 inhabitants | up to 10,000 inhabitants | more than 10,000 inhabitants |
| Maximum amount of subsidy | 300 thousand CZK | 350 thousand CZK | 400 thousand CZK |
| Maximum amount of eligible expenditure | 70 % | 60 % | 50 % |

Within the National Programme Environment, Priority Area 5: *Environment in cities and municipalities, Subarea 1: Implementation of systemic instruments*, it is possible to obtain support for sustainable development of cities and municipalities and improvement of the quality of life of inhabitants and the environment through the implementation/ further development of local Agenda 21. Priority Area 6: *Environmental Prevention* within the same programme, support can be obtained for achieving certification of an Environmental Management System (EMS).

Apart from strategic documents and action plans, it is also worth mentioning the support for the elaboration of feasibility studies and energy-saving projects under the EFEKT programme:

- Activity: 2D – Introduction of an energy management system in the form of energy management
- Activity: 2E – Elaboration of documents for the preparation of an energy-saving EPC project and preparation of tender documents for a public procurement for an EPC project
- Activity: 2F – Preparing the implementation of quality energy-saving projects with good practice principles

In the case of Activity 2F, the support programme “Energy Savings with Reason” can be used, which aims to ensure the preparation of high quality feasibility studies with “good practice” principles through the inclusion of a guarantor (energy specialist) in the preparation process of energy saving projects. Projects implemented according to these studies are subsequently awarded a quality certificate.



4.4 SUPPORT PROGRAMMES TO IMPROVE THE ENERGY EFFICIENCY OF BUILDINGS

Currently the main tools of state support for increasing the energy efficiency of buildings are subsidy programmes. The state supports energy-saving measures through programmes financed by the European Structural and Investment Funds and also from national funds. In order to shorten the payback period for energy efficiency measures implemented in public buildings and other municipally owned buildings, a number of support programmes can now be used, from which it is possible to obtain subsidies both for technical assistance in project preparation and for the actual implementation of projects.

Subsidy programmes can thus be divided into investment support during a project's implementation and non-investment support in the form of a financial contribution for assistance in project preparation and advisory services provided free of charge or paid from state funds.

4.4.1 NON-INVESTMENT SUPPORT

Energy Consulting and Information Centres (ECICs)

ECICs provide free energy consulting services for citizens, public administration representatives, businesses and entrepreneurs. Qualified energy advisors selected for the given calendar year by the Ministry of Industry and Trade carry out these services. Consultation centres are available in all regions of the Czech Republic. The centres are open for the public every Monday and Wednesday from 1pm to 5pm and it is advisable to arrange a visit in advance. In addition to face-to-face consultations, the ECICs also provide telephone consultations and consultations via the i-ECIC Internet consultation service. More information about ECIC can be found on the EFEKT website. [4].

Preparing the implementation of quality energy-saving projects with good practice principles

Technical assistance in the preparation of the project is provided by the Ministry of Industry and Trade through the State Programme to promote energy savings (EFEKT programme) [3], specifically through a subsidy for the preparation of a feasibility study in the form of an energy assessment by an expert guarantor who will propose the optimal combination of energy-saving measures.

In addition, the EFEKT programme can support the development of documents for the preparation of an EPC project and the preparation of tender documents for the public procurement of an EPC project. The maximum amount of support for preparation is 70 % of the eligible costs.



4.4.2 INVESTMENT SUPPORT

Support programmes for increasing energy efficiency fall under the responsibility of three ministries: Ministry of Regional Development (MRD), Ministry of the Environment (MoE) and Ministry of Industry and Trade (MIT). In addition, the MIT is also responsible for setting the Czech Republic's policies leading to the achievement of energy efficiency targets or the reduction of energy consumption.

The Operational Programme Enterprise and Innovations for Competitiveness (OP EIC) under the responsibility of MIT is intended for small, medium-sized and large enterprises outside the territory of the capital city of Prague. The programme provides subsidies for increasing energy performance and at the same time it provides preferential loans in the form of a financial instrument. The support under OP EIC is designed for enterprises only. The programme has since been replaced by the **Operational Programme Technologies and Application for Competitiveness** (OP TAC) in 2021. The first subsidy programmes within OPTAC should open for Czech entrepreneurs this summer. The exact conditions have not been published yet but it is quite likely that the whole process will be identical to the administration of the Operational programme Enterprise and Innovations for Competitiveness (OP EIC).

The Operational Programme Environment (OPE) under MoE is aimed at improving the environment, particularly in the public sector. Apart from its support for clean water, air, waste treatment and nature conservation, the programme also provides subsidies for projects focused on energy savings. It is primarily intended for municipalities, cities and their subsidiary organizations, as well as for educational institutions and companies. Funding can be obtained, inter alia, for increasing energy performance of public buildings.

The Integrated Regional Operational Programme (IROP) under MRD supports the development of municipalities, cities, towns, and regions. In the area of energy savings the programme provided subsidies for the renovation of residential buildings outside Prague until 2020.

The New Green Savings Programme (NGS) under MoE is a programme focused on energy savings and renewable energy sources in family houses throughout the Czech Republic and apartment buildings in Prague.

The PANEL 2013+ Programmes under the Ministry for Regional Development are administered by the State Housing Development Fund, which provides loans for the revitalization of the housing stock.

In the area of renovation and construction of buildings, municipalities outside the territory of the capital city of Prague can use the OPE and PANEL 2013+ programmes. Until 2020 subsidies for renovation of residential buildings were also provided from the IROP programme.



4.4.2.1 OPERATIONAL PROGRAMME ENVIRONMENT

The Operational Programme Environment 2014–2020 [5] built on the Operational Programme Environment 2007–2013 with total support for applicants amounting to €2.79 billion. The managing authority of the programme is the Ministry of the Environment, the intermediate body being the State Environmental Fund of the Czech Republic. The application process under the 2014–2020 OPE is still open until March–May 2021.

Support for projects through the Operational Programme Environment will continue in the period 2021–2027. It is expected that a large part of the currently supported activities will be supported in the future as well. The proposal for the new programme promises a number of innovations – easier implementation of complex projects, greater emphasis on climate change adaptation, support for environmental education, etc.

Under Priority Axis 5 – Energy savings – support is provided, inter alia, for increasing energy performance of public buildings.

Areas supported:

- 5.1 – Improve energy performance of public buildings and increase the use of renewable energy sources,
- 5.2 – Achieve high energy standards in new public buildings,
- 5.3 – Improve energy performance and increase the use of renewable energy sources in central government buildings.

The goal is to reduce final energy consumption and reduce the consumption of non-renewable primary energy through the use of local renewable energy sources in public buildings.

Types of supported projects and activities are as follows:

Supported activity 5.1a) Total or partial energy efficient renovations of public buildings, including projects carried out using the EPC method:

- Insulation of the building envelope,
- Replacement and renovation (refurbishment) of hole fillings,
- Implementation of measures that have a demonstrable impact on the energy performance of the building or improve the quality of the indoor environment (e.g. renovation and modernization of indoor lighting, heating and ventilation metering and control systems, measures to improve room acoustics, measures to prevent summer overheating),
- Implementation of forced ventilation systems with waste heat recovery,
- Implementation of systems using waste heat,
- Replacement of a heat source for heating, cooling or domestic hot water of less than 5 MW using fossil fuels or electricity with efficient sources using biomass, heat pumps, natural gas-fired condensing boilers or combined heat and power or cooling plants using renewable sources or natural gas,



- Installation of a photovoltaic system,
- Installation of solar thermal collectors.

Supported activity 5.1b) Separate measures to replace a heat source with a capacity of less than 5 MW using fossil fuels or electricity for heating, cooling or hot water with efficient sources using biomass, heat pumps, natural gas-fired condensing boilers or combined heat and power or cooling plants using renewable sources or natural gas, the installation of solar-thermal collectors, the installation of photovoltaic systems, and the installation of forced ventilation with waste heat recovery system, if the public building meets a certain energy performance and, in the case of the installation of forced ventilation with heat recovery, does not meet the requirements to ensure sufficient air exchange.

Supported activity 5.1c) Construction of new public buildings in the passive energy standard.

Support is provided chiefly for measures with a longer economic return. The follow-up care for proper heating of buildings and renovation of related technological equipment, especially heat sources and control systems, is substantial as well. These measures should be implemented simultaneously with measures of a longer payback period within a single project, e.g. through the method of energy service with guaranteed energy savings.

The maximum amount of aid depends on the total energy savings achieved or on the type of measures used, and makes up between 30–70 % of eligible expenditure. For projects in area 5.1(c), support is provided in the form of a subsidy with a maximum limit of up to 30 % of the total eligible costs, up to the amount of 50 million CZK.

4.4.2.2 THE PANEL 2013+ PROGRAMME

PANEL 2013+ [6] is a loan programme for the revitalization of housing stock regardless of the construction technology. Owners of residential buildings, i.e. cooperatives, owners' associations, individuals and legal entities, cities and municipalities can apply for the loan. The construction technology of an apartment building (panel, brick) is not decisive. The programme applies to the entire territory of the Czech Republic and supports complex repairs and modernizations that lead to the extension of the lifespan of houses. The loan can be used, among other things, to reduce the energy consumption of the house. Since 1 September 2020 the amount of the loan is up to 90 % of the eligible expenditure, subject to a de minimis limit, and the interest rate is 0,50 % p.a.

The applicant must start drawing down the loan within 6 months from the date of signing the loan agreement and finish the drawdown within 3 years from the date of signing the loan agreement. Once the loan has been drawn down, the applicant will receive a repayment schedule with monthly instalments starting from the month following the drawdown. The payback period will be set out in the loan agreement and may be up to 30 years depending on the applicant's requirement and ability to repay the loan.



Renovations and refurbishment that can be implemented with Panel 2013+ to increase energy performance of buildings include the following:

- Removal of defects in the foundations of buildings and repair of the waterproofing of the substructure;
- Repair of the building envelope and repair of the joints of the building envelope components;
- Additional thermal insulation of the opaque building envelope;
- Repairs and insulation of roofs including extensions such as engine rooms, chimneys;
- Regulation of the heating system;
- Thermal insulation of selected internal structures;
- Improvement of central heating system control, modernization of the heating system including the use of renewable energy sources;
- Repair of building transfer stations or engine rooms with domestic hot water equipment, including the installation of consumption meters;
- Construction of a new boiler room for the needs of the building;
- Installation of thermosolar panels to produce heat or hot water for the building;
- Installation, renovation, or upgrades of ventilation systems;
- Project costs, essential expertise, inspections, certificates, audits.

The loan cannot be applied for after the work has started and the loan cannot be used to reimburse invoices already paid.

4.4.2.3 ENERGov – ENERGY EFFICIENCY IN PUBLIC BUILDINGS AND INFRASTRUCTURE

Under the Modernization Fund, the ENERGov programme will be launched in March 2021 [7]. The programme is aimed at supporting complex measures to improve energy efficiency and the use of renewable and low-emission sources in public buildings, government buildings, and public infrastructure.

The supported programme areas involve:

- Improving energy performance of public buildings and public infrastructure,
- Improving energy performance of technological energy consumption systems,
- Construction of new public buildings that meet the parameters for passive or plus buildings,
- Construction and retrofitting of renewable energy sources for public buildings,
- Improving the quality of the indoor environment,
- Increasing the adaptability of buildings to climate change.

More detailed conditions for obtaining support have not been published yet.



4.4.2.4 SUPPORT FOR FORCED VENTILATION WITH HEAT RECOVERY

Forced ventilation with heat recovery is used for the controlled provision of a stable, high-quality, and user-friendly indoor environment in buildings. The supply of fresh air and exhaust air discharge helps with humidity control in the building and discharge of pollutants. Forced ventilation is a more investment-intensive type of measure, which, in addition to the benefits mentioned above, can save considerable heating costs (or heat lost through natural ventilation in buildings without forced ventilation). Forced ventilation is particularly advantageous in buildings with a large number of users or constant operation, i.e. especially in administrative, medical and educational facilities.

Funding for forced ventilation can be obtained mainly from the Operational Programme Environment 2014–2020 under Priority Axis 5 *Energy Savings*. For Specific Objectives 1 and 3, support is available for total or partial energy-efficient renovation of public buildings under Specific Objective 2 for the construction of new public buildings with a high energy standard (which requires the implementation of forced ventilation). The support for forced ventilation systems with heat recovery can be up to 70 % of the eligible project costs. In the programming period from 2021 onwards, support will be available under priority 2.A.1 *The Environment*, specific objective 1.1 *Support for energy efficiency measures* [5] and similar conditions as in the previous period can be expected.

Another option is to use the New Green Savings Programme, where support can be obtained for controlled ventilation systems with heat recovery in family and apartment buildings.

4.5 PROMOTION OF THE RES USE

The basis of system support for renewable energy sources in the Czech Republic is provided by Act No. 165/2012 Coll. on Supported Energy Sources and on Amendments to Certain Acts and related decrees, which set out the basic conditions for doing business in the energy sectors and regulate the rules for supporting electricity production from RES. The legislative framework of support is further supplemented by programmes of financial support from public sources – currently mainly from the European Union Structural Funds (the so-called Operational Programmes), from the State Programme to Promote Energy Savings (the EFEKT programme), and also from the newly established Modernization Fund. Some regions and the Prague City Hall announce their own subsidy programmes. Further funding of investment projects can be secured through special banking products.

Until 2014, the support for the production of electricity from renewable energy sources was determined by the purchase price of electricity and the green bonus, and the duration of the support was set for the lifetime (20 or 30 years). However, the operating support for electricity generation plants was stopped



for most RES sources from 2014 onwards, the reason being rapidly increasing and significant costs of the operating support. As of 1 January 2014, only small hydropower plants and residual sources (wind power plants and geothermal power plants) continue to receive operating support.

4.5.1 OPERATIONAL PROGRAMMES

European programmes are currently the main source of support for investment projects in the field of renewable energy sources. Non-commercial projects of towns, municipalities or non-profit organizations (projects aimed at the development of RES in the field of education, health and social sphere) are supported, always according to the specific conditions of the call for proposals. The terms and conditions of individual calls vary considerably; an overview of upcoming calls can always be found on the relevant websites.

4.5.1.1 OPERATIONAL PROGRAMME ENVIRONMENT (OPE) 2021–2027, SPECIFIC OBJECTIVE 1.2 PROMOTION OF ENERGY FROM RENEWABLE SOURCES

The specific objective will support activities related to increasing the use of renewable energy sources. These mainly include:

- The construction and renovation of renewable energy sources for public buildings,
- The construction and renovation of renewable energy sources for the supply of system energy in the public sector.

The main target groups are public entities. These are mainly municipalities, regions and their organizations such as schools, cultural and sports facilities, universities, public research institutions, commercial companies owned 100% by a public entity, state enterprises, organizational units of the state, etc. All regions except the capital city of Prague are target areas of the programme.

The preparation of the programme and negotiations with partners and the European Commission are currently underway. The final form of the supported activities or structure may therefore differ from the current proposal.

4.5.1.2 OPERATIONAL PROGRAMME TECHNOLOGIES AND APPLICATION FOR COMPETITIVENESS (OP TAC)

The new Operational Programme Technologies and Application for Competitiveness 2021–2027 [8] is a direct successor to the finishing OP PIC programme. The programme, which allocates the main European funds for entrepreneurs, is under the responsibility of the Ministry of Industry and Trade of the Czech Republic. OPTAC has prepared over 80 billion CZK for Czech enterprises. The subsidy rate for individual projects will range between 25–80%. Among others, support will be given to energy-saving projects, renewable energy sources and clean mobility. The first subsidy programmes in OPTAC should open in the summer of 2021.



The individual programmes will be opened for entrepreneurs in the so-called calls for proposals, to which projects will be submitted in the form of an Application for Subsidy. Applications will then be scored and, if they meet the qualification criteria and score sufficiently, they will be approved.

4.5.1.3 RURAL DEVELOPMENT OPERATIONAL PROGRAMME

The budget of the Rural Development Programme for Czech agriculture amounted to more than CZK 96 billion in 2014–2020 [9]. Of this, CZK 62 billion came from EU sources and CZK 34 billion from the Czech budget. The main objective of the programme is the restoration, preservation and improvement of ecosystems dependent on agriculture through agri-environmental measures. Other objectives encompass investments for competitiveness and innovation of agricultural enterprises, support for the involvement of young people in the agricultural sector or landscape infrastructure.

One of the objectives is to facilitate diversification into non-agricultural activities and thus stimulate job creation. One typical diversification option is the processing of renewable energy sources and non-food uses of agricultural production.

Under Activity 6.4.3 Investments to promote energy from renewable sources, investments aimed at the use of by-products and raw materials for the purposes of the bio-economy are supported, particularly in the construction of facilities for the processing and use of renewable energy sources, such as investments in equipment for the production of shaped biofuels and biogas plants. The amount of support depends on the specific conditions of the current call for applications.

4.5.2 NEW GREEN SAVINGS

The New Green Savings Programme [10] is financed from the proceeds of the sale of the European Union Allowance (EUA) and European Union Aviation Allowance (EUAA). The programme is aimed at supporting installations for heating using renewable energy sources and investments in energy savings in renovation and new construction of family houses and apartment buildings. The new Green Savings programme is divided into three areas. Area C supports the installations of renewable energy sources. This part of the programme covers measures using renewable energy sources for heating and hot water in family houses and apartment buildings. The technological implementation of the measures must meet the conditions prescribed by the programme. Support can be granted to an applicant who replaces a non-environmental heating source using solid or liquid fossil fuels or electric heating with one of the supported low-emission heating sources – a biomass boiler or efficient heat pumps. In the case of new buildings, the applicant may receive a subsidy for the installation of one of these sources.

Investments related to the installation of solar thermal collectors, photovoltaic systems and controlled ventilation with heat recovery in family houses

nová

zelená

úsporám



and apartment buildings are also subsidised. The collectors must fulfil the prescribed purpose – hot water or a combination of hot water and heating.

The total amount of aid per application is, in the case of installation of renewable energy sources, no more than 30 % of the total eligible expenditure for apartment buildings and no more than 50 % of the total eligible expenditure for family houses. However, for apartment buildings, the aid is only intended for owners of buildings in the territory of the capital city of Prague. The deadline for the receipt of applications is determined by the exhaustion of the set allocation or by 31 December 2021 at the latest.



4.5.3 THE EFEKT PROGRAMME

The state programme for the support of energy savings, i.e. the “EFEKT programme” [3], is announced by the Ministry of Industry and Trade with the intention to participate in the implementation of the State Energy Concept. The EFEKT programme is a complementary programme to operational and national energy programmes with the aim of increasing energy savings. The programme budget for the period 2017–2021 is a maximum of CZK 750 mil. The funds for each year are released gradually.

Subsidies from the EFEKT programme in the area of support for energy from RES are provided mainly for information and awareness-raising activities for the public. State support can also be obtained for minor investment projects in the field of energy production and savings and energy management. The already mentioned ECIC advice centres are available, where it is possible to consult renewable energy-related problems in person or via the on-line advice centre. In addition, subsidies can be used for the preparation of a comprehensive, high-quality energy-saving project with a proposal for a combination of energy-saving measures in the form of a feasibility study or an energy assessment.

4.5.4 MODERNIZATION FUND

In Directive 2003/87/EC, the European Commission has established a “Modernization Fund” [11] for the period 2021–2030, which will enable investments in refurbishment of energy systems and improving energy efficiency. The implementation of this new financial instrument in the Czech Republic was entrusted to the State Environmental Fund of the Czech Republic.

The Modernization Fund draws its resources mainly from the monetization of 2% of the total number of emission allowances in the EU ETS system for the period 2021–2030. It focuses on the following priority areas in a sustainable technology perspective:

- Production and use of renewable energy,
- Energy efficiency,
- Energy storage and distribution facilities.



The total amount available for the Czech Republic at current prices of emission allowances is approximately CZK 150 billion, which represents 15.6% of the total resources of the Modernization Fund. If the European Investment Bank and the European Commission manage to finalise all the implementing rules of this new financial instrument, the first standard calls from the Modernization Fund will be launched in March 2021.

The implementation of the Modernization Fund is carried out through 9 separate programmes, within which specific forms and conditions of support will be determined. The setting up of these programmes is currently the subject of intensive negotiations and discussions.

Investment support for energy from RES will be addressed under Programme 2 - RES+ – New Renewable Energy Sources, which will support new non-fuel RES.

Supported areas of the RES+ programme

Installation of new renewable energy sources (RES) and active energy management components:

- Photovoltaic power plants (PV plants),
- Geothermal energy sources.

Installation of new or upgrading of existing RES and active energy management components:

- Wind power plants (WPPs),
- Small hydropower plants (SHPPs).

Support for electricity storage systems (only as part of a new source project).

A call for project proposals under the programme was published at the end of 2020 but it does not serve to select and finance the applications submitted.

4.6 SUPPORT FOR INFRASTRUCTURE DEVELOPMENT

According to the Building Act (Act No. 183/2006 Coll.), public infrastructure is defined as land, buildings, facilities falling under transport infrastructure (roads, waterways), technical infrastructure (engineering networks, waste management), civic amenities (health, educational, social and cultural facilities) and public spaces (parks, squares, ...). High-quality public infrastructure plays an essential and substantial role in the life of any municipality. The chapter then deals only with infrastructure that has a direct impact on the climate – this is mainly transport infrastructure (main local roads, public transport) and technical infrastructure (street lighting, waste management systems), but it should be borne in mind that other components of public infrastructure also play an important role in influencing and shaping the quality of the environment and life in the municipality. Within the framework of programmes such as OPE, The Environment for Life, National Programme Environment, Nature Conservation



or Support for Regional Development from the Ministry for Regional Development, it is also possible to obtain subsidies for the revitalization of areas, measures against natural disasters, landscape conservation, biodiversity and support for civic amenities.

4.6.1 STREET LIGHTING

Financial resources for street lighting can be obtained mainly from the state programme for the promotion of energy savings – EFEKT – from sub-programme No. 1 *Investment support for the implementation of energy-saving projects*, activity 1A *Measures to improve energy performance of street lighting*.^[3] Municipalities, their subsidiary organizations or business corporations with a 100% share of the municipality can obtain financial support in the amount of 50% of eligible costs up to a maximum of CZK 2 million for street lighting projects in their territories not encroaching on the protected landscape area. The subsidy is designed for the renewal of the lighting system, the installation or optimization of the control system of the street lighting system in municipalities, whereby the lighting must meet the prescribed technical parameters.

For projects of renovation or modification of street lighting in the territory of national parks and protected landscape areas it is possible to draw subsidies from the National Programme Environment, more precisely from the 5th priority area, *The Environment in cities and municipalities*, sub-area 3 *Support for energy efficiency and reduction of light pollution* [12].

Within the framework of the programme Support for Rural Renewal and Development [13] by the Ministry for Regional Development, municipalities with up to 3,000 inhabitants can draw a subsidy for street lighting of playgrounds and sports fields in the amount of up to 80% of the eligible costs with a limit of CZK 2 to 5 million. In addition, if the municipality ranks in the Village of the Year competition, the programme offers the possibility of drawing subsidies for other activities, including the renovation and construction of street lighting in the municipality.

Another option is to use subsidies from the LIGHTPUB programme – Modernization of street lighting systems – under the Modernization Fund. The programme offers funding for a wide range of public lighting measures.

4.6.2 WASTE TREATMENT

Waste treatment can be divided into two groups – solid waste treatment (municipal waste, worn-out products, landfills) and wastewater disposal and treatment.

In the field of waste treatment and circular economy, subsidies can be obtained from the Operational programme Environment (OPE) under priority



2A *The Environment*, specific objective 1.5 *Support for the transition to circular economy* [5]. The programme especially promotes activities leading to the transition to circular economy principles and improving the application of waste management hierarchy.

National programme Environment, the 3rd priority area: *Waste, old burdens, environmental risks* [12] offers funding for home composting, landfill disposal, remedial works, and the disposal of old environmental burdens. Another option is the EU LIFE programme, which funds eco-innovation projects requiring cooperation between science, industry, and public administration to contribute to the development of a low-emission economy. However, there is a great emphasis on quality, innovation and overall project preparation. The waste and circular economy can be further addressed through a research grant from the Environment for Life Programme of the Technology Agency of the Czech Republic.

In the area of wastewater management, particular use can be made of the OPE programme, specific objective 1.4 *Support for sustainable water management*, which supports activities aimed at improving the quality of surface and groundwater (e.g. wastewater treatment plants, modernization of sewerage systems) and improving the supply of drinking water to the population [5].

Programme 129 410 “Support for the construction and technical upgrading of water supply and sewerage infrastructure III” of the Ministry of Agriculture [14] offers reimbursement of up to 70 % of eligible costs up to CZK 50 million for the construction of sewerage systems and wastewater treatment plants (WWTP) and for the construction of water supply systems for public support, including related water supply facilities for municipalities with up to 2,000 inhabitants. A significant support is the Rainwater Programme [15], where up to 50 % of the eligible costs for rainwater collection for garden watering, rainwater storage for toilet flushing and watering, and the use of treated wastewater as domestic water can be covered for family houses and apartment buildings. The National Programme Environment (1st Priority area: Water) offers support, for example, for the construction and modernization of sewerage systems and WWTP, the construction and modernization of water treatment plants or the storage and use of rainwater in the municipality. Last but not least, it is possible to apply for financial support under the EU LIFE project and the Environment for Life Programme from the Technology Agency of the Czech Republic.

4.6.3 SUSTAINABLE MOBILITY AND TRANSPORT

In the programming period 2021–2027, urban mobility interventions will be addressed primarily in two operational programmes – the Operational Programme Transport (“OPT”) [16] and the Integrated Regional Operational Programme (“IROP”) [17], which will complement each other appropriately.

In the area of clean mobility, IROP will support the purchase of alternative fuel public transport vehicles and non-public infrastructure for alternative



fuels for public transport, while OPT will support electric rail infrastructure in cities and public infrastructure for alternative fuels on the road network. In the area of Intelligent Transport Systems, the IROP will support the full spectrum of telematics for public transport, while the OPT will support Intelligent Transport Systems (ITS) for road traffic management including information for drivers and other road users. In the area of multimodality, the IROP will support transfer terminals, parking systems and measures to increase the capacity of public transport on the road network. The railway infrastructure will be supported by the OPT. Non-motorized transport will not be supported by the OPT.

After the IROP funds are exhausted, clean mobility in the public transport segment will be financed from the Modernization Fund.

Other possibilities for financing measures in the field of transport, be it the purchase of equipment, modernization of technologies or the revitalization of roads and associated infrastructure, are represented by sub-activities under other subsidy programmes and financial instruments, such as the “TRANSGov – Modernization of Public Transport” programme under the Modernization Fund.

Under the Municipality 2 and RRF Loan programmes administered by the Czech-Moravian Guarantee and Development Bank [18], it is possible to obtain funds on favourable terms. The “Municipal Support” programmes of the Ministry of Regional Development [13] allow obtaining funds for the rehabilitation of local roads, including regular passenger bus stop lanes or for the rehabilitation of buildings and transport infrastructure facilities (different calls are announced every year). Within the National Programme Environment, Priority Area 5: *The Environment in cities and municipalities* [12], projects in the field of sustainable urban transport and mobility can be financed (e.g. introduction of low emission zones in municipalities, promotion of public transport, promotion of alternative modes of transport, information campaigns, etc.). The Transport 2020+ programme of the Technology Agency of the Czech Republic [19] provides grants for research and innovation projects in the field of transport.

4.6.3.1 INTEGRATED REGIONAL OPERATIONAL PROGRAMME

The Integrated Regional Operational Programme 2021–2027 (“IROP”) [17] sets out the objectives and priorities for the effective use of the financial resources of the European Regional Development Fund (“ERDF”) in the programming period 2021–2027 in order to address the identified regional challenges in the Czech Republic. The Integrated (Regional) Operational Programme was historically launched in 2007 and is now in its third programming period. The main objective of the supported interventions is to strengthen regional competitiveness and the quality of life of the population with a view to a balanced development of the territory while taking into account the diversity of needs in different types of territories. The priority of the IROP is thus primarily to enable a balanced development of the territory and to ensure sustainable development in municipalities, towns, and regions. The potential of targeted IROP



measures with a territorial dimension is to bridge the gap between regions and to implement tailor-made solutions to stimulate regional opportunities.

The Integrated Regional Operational Programme focuses on 5 main priorities. The sixth priority is for Technical Assistance to ensure the running of the operational programme:

- **Priority 1** – Improving public administration performance
- **Priority 2** – Development of urban mobility, revitalization of cities and municipalities, protection of the population
- **Priority 3** – Development of transport infrastructure
- **Priority 4** – Improving the quality and accessibility of social and health services, educational infrastructure and development of cultural heritage
- **Priority 5** – Community-led local development

Specific Objectives 2.1 and 2.2 are particularly relevant for climate protection in the area of transport and infrastructure.

Specific objective 2.1 *Promoting sustainable multi-modal urban mobility* focuses on the purchase of low- and zero-emission vehicles for public transport, the development of refuelling and recharging stations for public transport, the modernization of traffic management systems, the construction and modernization of transfer terminals (car parks for transfer to public transport) and the promotion of infrastructure for walking and cycling.

Specific objective 2.2 *Strengthening nature conservation, biodiversity, green infrastructure in the urban environment and reducing pollution* under IROP focuses on the revitalization of public spaces in the sense of implementing green infrastructure and the reuse of unused areas for the development of public spaces and green infrastructure.

Transport and infrastructure are marginally covered by specific objectives 4.4 *Strengthening the role of culture and tourism in economic development, social inclusion and social innovation* and 5.1 *Supporting integrated social, economic and environmental local development and cultural heritage, tourism and security outside urban areas*. Objective 4.4 supports public infrastructure for sustainable tourism (rest areas, tourist and educational trails, car parks); Objective 5.1 supports, for example, infrastructure for cycling, revitalization of public spaces, etc. However, the conditions are that the projects are implemented in the territory of the Local Action Groups (LAGs) in accordance with the approved Community-Led Local Development (CLLD) strategy.

Within the Integrated Regional Operational Programme, up to €2.2 billion is available for Priority Axis 2, depending on the category of regions (less developed, transition and more developed), with approximately €1.6 billion covered by the EU contribution. The level of support is higher for less developed and transition regions. For the whole IROP programme, about €6.3 billion is available, with a contribution from the European Union of about €4.8 billion, i.e. about 75%.



4.6.3.2 OPERATIONAL PROGRAMME TRANSPORT

The Operational Programme Transport 2021–2027 (“OPT”) is the main financial and technical document for meeting strategic investment needs and addressing key issues in the transport sector in the Czech Republic. Like the Integrated Regional Operational Programme, the OPT is in its third programming period. OP Transport is supported by the European Regional Development Fund (“ERDF”) and the Cohesion Fund.

The basic document for the development of the Operational Programme Transport 2021–2027 is the National Concept for the Implementation of Cohesion Policy in the Czech Republic after 2020. In this concept, the Czech Republic has set “Efficient accessible, and environmentally friendly transport” as a strategic objective. The development of backbone, suburban and urban transport infrastructure and sustainable transport is a clear priority for the Czech Republic, which will enable better connectivity between regions and between the Czech Republic and other EU countries.

The Operational Programme Transport 2021–2027 will have three substantive priorities, with a fourth priority for Technical Assistance:

- **Priority 1** – European, national and regional mobility in road and rail transport
- **Priority 2** – National and regional mobility in road transport
- **Priority 3** – Sustainable urban mobility and alternative fuels
- **Priority 4** – Technical assistance

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Opportunities to participate in the design of support instruments for municipalities

It is usually difficult for municipalities to participate directly in the design of support instruments. Of course, it is always possible to contact the administrator of the support instrument, but it cannot be guaranteed that any comments and suggestions will be incorporated appropriately and effectively. However, when preparing some programmes, it is possible to send comments and suggestions within public hearings and consultations (e.g. in May 2020 a consultation on the OP TAC 2021–2027 took place [8]).

On the other hand, municipalities have a relatively good opportunity to be involved in the design and development of support instruments – mainly indirectly – through various municipal and town associations and societies or consulting agencies (these may not be organizations composed only of municipalities, but municipalities may be members of larger and more diverse groups), which are consulted in the development of the support instrument. In this respect, there are often a series of closed meetings or development rounds, possibly complemented by public hearings where the development to date is presented to the (professional) public. The process of consultation or development of support tools thus often takes place in the context of expert working or action groups and teams (often several groups, each addressing a specific area), development/preparation platforms or preparatory committees.

Table 3
Examples of involvement of organizations relevant to municipalities in the development of major support programmes in the Czech Republic

| Programme | Grouping | Organizations representing or relevant to municipalities |
|---|---|---|
| Operational programme Environment 2014–2020 | MoE Platform 2014–2020 | Union of Towns and Municipalities of the Czech Republic National Network of local Action Groups |
| Integrated Regional Operational Programme 2021–2027 | IROP Preparatory Committee for the period 2021–2027 | Union of Towns and Municipalities of the Czech Republic Association of Local Authorities of the Czech Republic National Network of local Action Groups Association for Rural Renewal |
| Modernization Fund | Platform for the Modernization Fund | Union of Towns and Municipalities Union of Local Authorities |

Source: SEVE, based on programme documents

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Other applicable financing methods

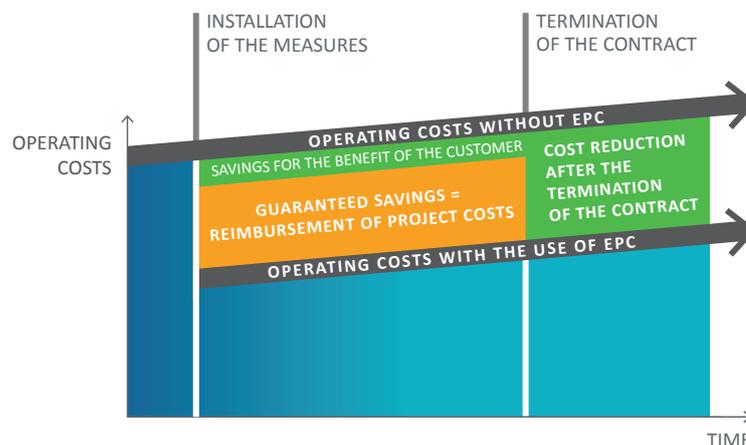
In addition to direct state support, towns and municipalities have the option of using other financing methods to implement climate protection measures. The basic concepts applicable to climate action are the PPP (Public Private Partnership) and EPC (Energy Performance Contracting) models, as well as debt financing, usually in the form of a soft loan or credit.

6.1 ENERGY PERFORMANCE CONTRACTING (EPC)

Energy Performance Contracting (EPC) includes the design of energy saving measures, preparation, implementation, and, if necessary, financing of a project leading to energy savings in buildings. In principle, the customer does not need any financial resources, as the implementation is gradually repaid to the provider from the resulting and contractually guaranteed savings. The design of the comprehensive energy saving measures and the implementation of the entire project is fully the responsibility of the contractor selected in the tender (an energy service company – ESCO). All risks of the project are borne by the service provider and in the event that savings are not achieved according to the predefined model, the provider pays the difference.

The EPC method is particularly advantageous for entities with annual energy payments of at least CZK 1.5 million. There, the potential for savings can be guaranteed, from which the investment in modernization is then gradually paid for.

Picture 1
The principle
of an EPC project





The EPC model has been applied in the Czech Republic for 26 years. The first company to implement EPC in the Czech Republic was established in 1993 and the first project was carried out by the hospital in Jilemnice. In a quarter of a century, more than 250 EPC projects worth almost CZK 3.6 billion have resulted in energy savings worth CZK 1.4 billion and an estimated 300,000 CO₂ equivalent emissions [20]. Almost half of the projects fall in the education sector, followed by health, industry, and public administration. The iconic buildings of the National Theatre and the Rudolfinum, which were granted an exemption from the Ministry of Culture, have also undergone renovation on the basis of the EPC project. The year 2020 was a record year in the Czech Republic in terms of the energy services market with guaranteed savings. Active projects saved customers (i.e.: cities, regions and their subsidiary organizations, almost CZK 400 million in electricity, gas, heat and water. This is the largest annual saving since 1994. The amount of energy saved in these projects increased by 15% compared to the previous year [21].

Sufficient availability of relatively highly experienced energy service providers guarantees the success of EPC projects for municipally owned buildings at least to some extent. In addition, the implementation and preparation of energy saving measures using the energy service method with a guarantee of savings is supported by the state programme EFEKT and can be combined with some subsidy titles. The maximum amount of support for the implementation of EPC measures is CZK 2 million, but not more than 50 % of the eligible expenditure. For the preparation of documents for the devising of an EPC project and for the preparation of the tender documentation for the public procurement of the EPC project 2021 the municipality can receive support in the amount of CZK 300 thousand (maximum 70 % of costs).

6.2 PUBLIC PRIVATE PARTNERSHIP

One of the ways to use the financial resources and professional skills of private entities to meet the current needs of the state is to cooperate on Public Private Partnership (PPP) projects. The basic idea of PPP projects is a long-term contractual relationship (typically between 20 and 30 years) in which the public and private sectors share the benefits and risks of providing public infrastructure and public services. The advantage of such a partnership is the exchange and sharing of experience, knowledge and abilities between the two partners and the transfer of competencies to the most appropriate sector. Transferring risks to the sector that can manage and control them better is advantageous as well. Experience has shown that PPP projects have a positive impact on public finances and the economy, and increase the quality and efficiency of public administration services.

A private sector company may be paid either by the user through user charges, by the authority (e.g. availability payments) or a combination of both (e.g. lower user charges and public operating subsidies). However, PPP arrangements are quite complex, requiring detailed preparation and planning, proper management of the purchasing phase, careful contract design, etc.



PPP projects have not yet established themselves in the Czech Republic. The reasons lie in the complexity, cost, and especially the length of preparation of a PPP project. Another reason is the lack of stability of the political environment. The conditions of a PPP project are formed not only for the construction period, but also for the period of operation, as well as for the period of provision of services, which is a relatively long time in advance. As such, it is quite difficult to predict the exact conditions in the local environment.

The PPP model has potential in cases where private companies can use their own resources to, for example, build or renovate buildings to serve as new social services in the event that the municipality does not have the necessary funds for the investment. Likewise, the private sector can also take on the role of the operator of these facilities.

Since experience with PPPs is minimal in the Czech Republic, both in the public and private sector, using this method can be relatively complex and risky for small towns and municipalities.

6.3 DEBT FINANCING

At the national level, there are often limits on loans to municipalities to prevent financial difficulties and increasing public debt. Energy-saving and climate projects are not typical capital expenditures that municipalities can easily assess and approve, and if they have a relatively low public profile, they are likely to be a lower priority than other urgent expenditures. In this case, the use of soft loans is appropriate. There are lines of credit dedicated to energy efficiency measures, extended to end-users on favourable terms in terms of repayment and/or interest rates. The Czech banking market offers mainly special banking products for financing PV technology including installation, which can be combined with state subsidies. The discounted interest rate is 4,9 % p.a. regardless of the amount of the investment.

In addition, the State Environmental Fund and the State Investment Promotion Fund also provide soft loans to finance or co-finance energy efficiency measures and climate measures.

6.3.1 LOANS FROM THE SEF OF THE CZECH REPUBLIC

The State Environmental Fund (SEF) of the Czech Republic provides soft loans for the co-financing of projects supported by the Operational Programme Environment (OPE). The main advantage is that there is no interest, only revenue-generating projects are usually remunerated at a low rate of 0.45% per annum. The loan is always interest-free for the duration of the project. Other advantages are no loan arrangement fees, early repayment or deferred payments. The maturity of the loan can be chosen freely and the loan can be secured by real estate collateral, third-party guarantees, or in combination with an agreement to place a lien upon the completion of the project.

It is possible to apply for a loan at the time of submitting an application for an OPE subsidy or afterwards, but no later than at the date of approval of the documents for the subsidy. The award of the OPE subsidy and the demonstration of creditworthiness are the basic conditions for granting the loan. The individual calls for loan applications set out the specific conditions for granting the loan (for which projects the loan can be obtained, the amount of the loan, the amount of interest, the repayment period, etc.). It is also possible to combine a subsidy with a soft loan from the SEF for some projects supported by the National Programme Environment.

The State Investment Promotion Fund provides interest-free loans under the Insulation Programme and the aforementioned Panel 2013+ programme.

6.4 COMBINING VARIOUS FINANCING MODELS

Two financing models are often combined in energy efficient projects and other climate protection measures. Mostly, available subsidies are combined with self-financing or soft loans.

With the recent availability of subsidy programmes to finance energy efficiency, combining them with other financing models is becoming increasingly interesting. This also applies to combining subsidies with the EPC model. The positive effects of the EPC method can be increased, for example, by combining it with the subsidy support provided under the Operational Programme Environment. In the case of building renovations, the insulation of the building envelope can be included alongside the renovation of the technological equipment and the associated optimization of energy management. When renovating or constructing buildings, it is possible to combine subsidized construction measures with the renovation or installation of technological equipment by an energy service provider through the EPC method. However, the suitability of the use of EPCs and the possibility of combining them with subsidies for specific measures must be assessed in advance in the context of expert advice or studies.



Two financing models are often combined in energy efficient projects and other climate protection measures. ... The positive effects of the EPC method can be increased, for example, by combining it with the subsidy support provided under the Operational Programme Environment.

7/

Conclusion and recommendation

Climate protection is one of the central issues of European Union policy. Cities and municipalities also have an important role to play in it, and without their cooperation it will be impossible to achieve the objectives set. Cities and municipalities have the possibility to receive financial support for climate protection measures from a variety of international, European, and national funds or through other instruments such as public-private partnerships (PPP projects), energy services with guaranteed savings (EPC projects) or debt financing.

In the Czech Republic there is a large number of financial support mechanisms and instruments covering practically all areas of support. Among the most important financial instruments available for municipalities in the Czech Republic are the EFEKT programme, the Operational Programme Environment, the New Green Savings Programme, the National Programme Environment, the Integrated Regional Operational Programme, the Operational Programme Transport, the Rural Development Programmes and, from 2021, the Modernization Fund. However, this is not the final list of instruments.

The areas of support of the financial mechanisms do not usually overlap, but rather complement each other or focus on strengthening regional competitiveness (e.g. programmes tailored for small municipalities). Thus, only one or at maximum a few specific subsidy programmes can be used for the area covered by the investment project. Nevertheless, the overall large number of programmes and financial instruments can cause difficulties for municipalities and cities, especially in navigating between them and in ensuring that they are sufficiently informed about all subsidy possibilities, their conditions, and requirements. Ensuring supply of information on a regular basis can greatly assist municipal staff in the initial preparation of a project plan and in the selection of an appropriate subsidy programme.

Other barriers to obtaining funding are mainly administrative barriers, insufficient capacities and know-how, lack of own funds, including possible advances and reserves, difficult negotiations with managing authorities on the eligibility of costs, proper compliance with all terms and conditions of subsidy programmes, excessive complexity or large scale of the project causing its failure or reduced quality and/or efficiency, or insufficient identification of risks.

Cities and municipalities should therefore focus mainly on overcoming these barriers and bridging the gaps that prevent them from successfully obtaining funding for their climate projects. They can do this in two ways, which can be combined. The first is to increase the skills and expertise of their own staff, usually by introducing the position of a city energy manager who will be fully involved in climate projects and securing their financing. This may be a part-time job for smaller towns and full-time for larger cities. The second option is to use external databases and tools for project assessment and evaluation or to approach external consulting firms and experts or specialists in the field to help the municipality with the preparation or implementation of the specific investment project, including possible financing and administration of the subsidy and other formalities.

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9 / List of financial mechanisms



| | |
|---|---|
| Státní program na úsporu energie (EFEKT) | https://www.mpo-efekt.cz/ |
| Úspory energie s rozumem | http://usporysrozumem.cz/Uvodni-strana |
| Operační program životní prostředí (OPŽP) | https://www.opzp.cz/opzp-2021-2027/ |
| Kotlíkové dotace | https://www.sfzp.cz/dotace-a-pujcky/kotlikove-dotace/kotlikove-dotace-3-vyzva/ |
| Nová zelená úsporám (NZÚ) | https://www.novazelenausporam.cz/ |
| Národní program životní prostředí (NPŽP) | https://www.mzp.cz/cz/narodni_program_zivotni_prostredi |
| Integrovaný regionální operační program (IROP) | https://irop.mmr.cz/cs/irop-2021-2027 |
| Program Dešťovka | https://www.dotacedestovka.cz/ |
| Inovační fond, Modernizační fond | https://www.sfzp.cz/dotace-a-pujcky/ |
| Operační program Doprava (OPD) | https://www.opd.cz/stranka/OPD-2021 |
| Podpora revitalizace území 2021, Podpora rozvoje regionů 2021, Podpora vládou doporučených projektů v oblasti rozvoje regionů 2021, Obnova obecního a krajského majetku po živelních pohromách v roce 2020 | https://www.mmr.cz/cs/narodni-dotace/podpora-a-rozvoj-regionu |
| Program 129 410 „Podpora výstavby a technického zhodnocení infrastruktury vodovodů a kanalizací III“ | http://eagri.cz/public/web/mze/dotace/narodni-dotace/dotace-ve-vodnim-hospodarstvi/vodovody-a-kanalizace/ |
| Program 129 280 „Podpora retence vody v krajině – rybníky a vodní nádrže“ | http://eagri.cz/public/web/mze/dotace/narodni-dotace/dotace-ve-vodnim-hospodarstvi/rybniky/ |
| Operační program Rybářství 2021–2027 | http://eagri.cz/public/web/mze/dotace/operacni-program-rybarstvi-na-obdobi-2021-2027/ |
| Podpůrný a garanční rolnický a lesnický fond, a.s | https://www.pgrlf.cz/ |
| Program péče o krajinu | http://www.dotace.nature.cz/ppk-programy.html |
| ELENA, Úvěr z RRF, Obec 2 | https://www.cmzrb.cz/mesta/produkty/ |
| Inovativní finanční nástroje, Půjčky od SFŽP ČR | https://www.sfzp.cz/dotace-a-pujcky/ |
| Program DOPRAVA 2020+ | https://www.tacr.cz/program/program-doprava-2020 |
| Program Prostředí pro život | https://www.tacr.cz/program/program-prostredi-pro-zivot/ |
| Unijní program LIFE | https://www.program-life.cz/ |
| Modernizační fond | https://www.sfzp.cz/dotace-a-pujcky/modernizacni-fond/ |