



INTERNATIONAL SUSTAINABLE FINANCE CENTRE

From Sustainable Investments to Just Transition: A Case Study of the Ústí Coal Region



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ABOUT THE ISFC

The International Sustainable Finance Centre (ISFC) is an independent, apolitical and impact-driven non-profit organisation whose aim is to carry out in-depth research on sustainable finance topics. The Centre uses expert insight and practical policy solutions to inform public debate and policymaking on sustainable finance, while also helping to build local expertise, networks and capacity on key topics, which include the EU's Green Deal, its Sustainable Finance Agenda and its post-COVID19 recovery packages.

PURPOSE OF THE PAPER



The planned coal phase-out and move away from heavily polluting industries will have far-reaching implications for the economies of the coal regions in the Czechia. Wide-ranging strategic investments are needed to minimise losses in employment, output, income and population including productive investments at the community level in Small and Medium Enterprises (SMEs), non-governmental/not-for-profit organisations (NGOs) and municipal authorities. This paper analyses their level of awareness of and preparedness to take advantage of available funding for a just transition process in the Ústí region as a case study.

What will you learn in this report?

- What is the **current state** of the SME and NGO sectors in the Ústí region?
- Do SMEs, NGOs and municipal authorities have **enough information** to access funds from various grant programmes and commercial banks?
- **How well-prepared** are SMEs, NGOs and municipal authorities to use public and private financing opportunities towards a just transition?
- What is their understanding of grant programs, and what are the **perceived barriers** to accessing the programs?
- An overview of all **potential funding opportunities**, both private and public, that can help with economic restructuring.
- **Recommendations** on how to improve the accessibility of financial instruments for SMEs, NGOs and municipal authorities.

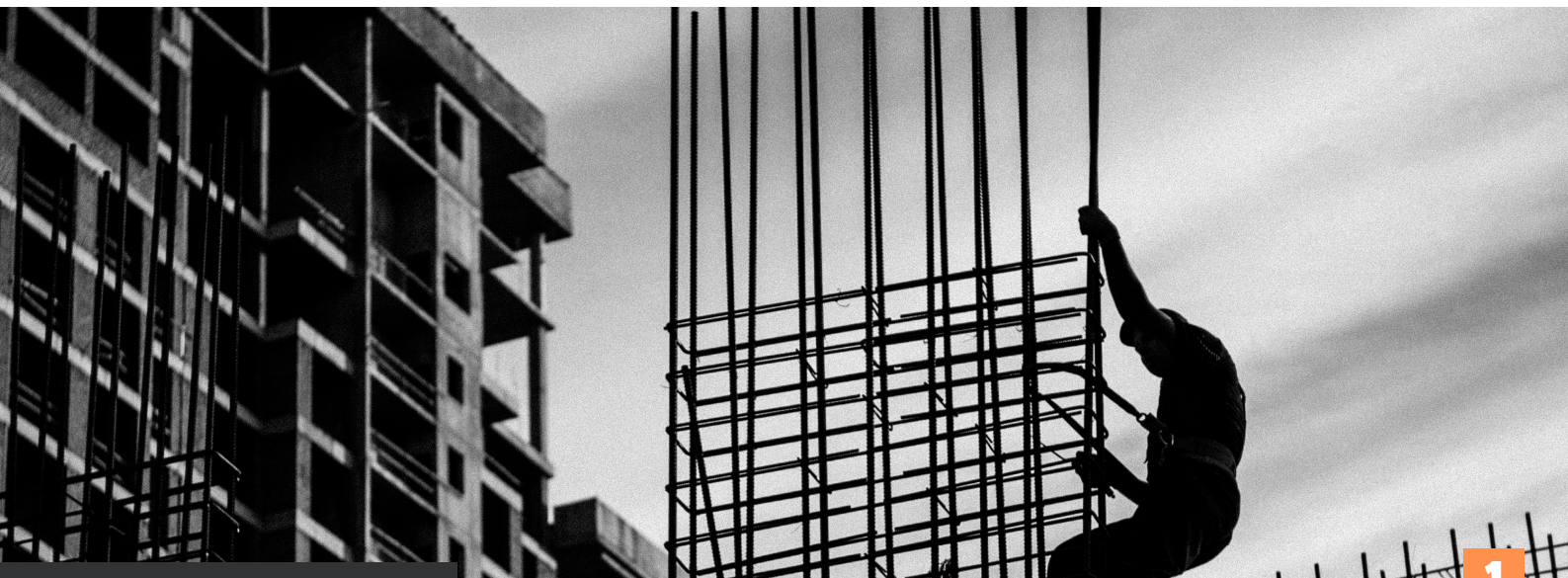
METHODOLOGY OF THE RESEARCH



The research project ran from May to November 2021. During this time, we organised :

- 2 workshops for SMEs (16 participants) and
- 2 workshops for NGOs and municipalities (22 participants).
- We sent approximately 1500 questionnaires to SMEs, 60 to NGOs and 300 to municipal authorities.
- We also called 170 SMEs directly.

In total, we received 35 responses (15 phone interviews and 22 written responses). In total, 75 representatives of the main target groups provided input for the research. Furthermore, we used previous questionnaires and data from the target groups provided to us by the Innovation Centre Ústí nad Labem. We also conducted interviews with representatives of the relevant Ministries, Regional Authorities, Chambers of Commerce, region institutions and associations as well consultancies providing services in the area of EU funding.



OVERVIEW

The Ústí region has begun a process of restructuring its economy away from heavy industry and mining. As part of the implementation of the Just Transition Mechanism (JTM), the region has a Territorial Just Transition Plan (TJTP) and has worked with the relevant Ministries to identify strategic projects. However, as stated in the [Regulation](#) Establishing a Just Transition Fund (JTF), the success of the restructuring is dependent also on “productive investments in SMEs, including microenterprises and start-ups, leading to economic diversification, modernisation and reconversion”. SMEs, of which there are approximately 16,000 in the region according to the Czech Statistical Office, play an essential role in sustainable economic development, accounting for 66.4% of employment in the Czech Republic. Accordingly, a key pillar of the TJTP of the Usti region is to “facilitate the creation of innovative firms in particular, which will be one of the sources of economic restructuring”.

However, a successful just transition must go beyond SMEs and start-ups to include the other legal tools of civic and economic participation; NGOs and municipal authorities. These three forms of legal entities representing the private, civic and public sectors are the only available means to ensure that funding for a just transition reaches impacted communities at the “grassroots” level.

Investments at this level will help ensure the JFT will contribute to achieving its “single specific objective of enabling regions and people to address the social, employment, economic and environmental impacts of the transition towards the Union’s 2030 targets for energy and climate and a climate-neutral economy of the Union by 2050, based on the Paris Agreement”.

Furthermore, a successful just transition must go beyond the JTM. There are a number of different EU and other funds as well as commercial and development bank products available that can contribute to achieving the just transition objectives. It is essential that SMEs, NGOs and municipal authorities are aware of these, are able to effectively use them, and to manage the process necessary for accessing and using the funding or the financial instruments.

CURRENT SITUATION

STATE OF SMEs - The SME ecosystem is underdeveloped in the Ústí coal region, with fewer registered SMEs than regions of similar size in the Czech Republic. The coal sub-region has the lowest number of SMEs per capita within the region itself. This is the result of a long-term lack of diversification and innovation of the economy. Large businesses (e.g., the coal and chemical industries or large multinational retail stores) dominate the economic and employment landscape, and relative poverty creates low demand for small production and services. Although the region borders Germany, SMEs in the region fail to take advantage of the single market and in the coal basin area, many are part of the coal industry supply chain.



"The Czech Republic is also one of the worst countries in Europe for attracting investment capital in start-ups."

According to a [study](#) from 2019 ranking 31 EU countries, the Czech Republic scores poorly in the development of start-up and SME ecosystems, ranking 17th in providing a good business climate (i.e., perceptions of judicial independence, competitive environment, and availability of funding) and 21st in labour force quality. While the policy framework has improved, there are still outstanding issues to be addressed including excessive regulatory and administrative burdens, no early warning mechanisms or specific insolvency procedures for SMEs and alternative sources of finance that remain underdeveloped, resulting in an unstable business environment for SMEs and start-ups.

Between 2008 and 2018, new business lending to SMEs fluctuated significantly but ultimately decreased by 58%. The Czech Republic is also one of the worst countries in Europe for attracting investment capital in start-ups, which has not reached even \$100 million in the last five years compared to \$772 million during the same period in neighbouring Poland.



STATE OF NGOs - The NGO sector is weak in the Ústí region. According to the Czech Statistical Office there are 315 registered NGOs per 1000 inhabitants or 89,2 inhabitants per NGO compared to the national average of 391 per 1000 inhabitants or 79,6 inhabitants per NGO. However, the Supreme Audit Office reports that only 20,5 % of these are active, which is the second lowest number in the country. This is problematic, given the region's relative household poverty, high proportion of long-term unemployed, higher-than-average criminality, high percentage of personal debt and percentage of people in execution, lower than national average levels of higher education and a decreasing population. Many NGOs end up providing basic or humanitarian type services rather than engaging in developmental or advocacy activities. However, there are several organisations providing services the NGOs such as the Association of Non-Profit Organizations of the Ústí nad Labem Region, the Ústí Community Foundation and Local Action Groups among others.

STATE OF MUNICIPAL AUTHORITIES

- The Ústí region can be divided into five geographic sub regions: Coal basin area, Ohře river area, the core area, Recreational areas and the Šluknovsko area, each with distinct geographic and economic characteristics. It comprises seven districts (Děčín, Ústí Nad Labem, Chomutov, Louny, Most, Teplice and Litoměřice). Within these districts there are 355 municipalities. 79.3% of the population of 821 thousand live in urban areas, which is second highest in the country. Revenue and expenditures of local governments has steadily increased since 2012 from just over 25 billion CZK to 44 billion CZK. Many municipalities belong to associations such as the Association of Local Authorities of the Czech Republic or the Union of Towns and Municipalities that provide them with support. The Regional Standing Conference of the Ústí Region (RSCUR) provides municipalities with information about grant opportunities on their webpage.

SOURCES OF INFORMATION



The main institutions providing information about the JTF and related funding to the public are:

- Ministry of Regional Development (MRD)
 - <https://dotaceeu.cz/cs/uvod>
- the State Fund for the Environment of the Ministry of the Environment (MoE)
 - <https://www.sfzp.cz/>
- the Business and Innovation Agency (API)
 - <https://www.agentura-api.org/cs/>

As stated above, the RSCUR provides information about grants (1). In addition, every Operational Programme (OP) has a web page providing general information. However, some of the most useful, comprehensive, and up-to-date information about grants is provided by consultancy agencies.

There are several web pages, including the web page for the Operational Program Just Transition (OPJT) (2), a sub-page on the above-mentioned webpage of the MRD (3) and the Regional Standing Conference of the Ústí Region (4), which contain almost no useful, relevant or updated information.

In September 2021, the Ústí Regional Authorities and the Economic and Social Council of Ústí Region organised the Sixth Business Forum of the Ústí Region dedicated to the just transition, bringing together all key stakeholders. Furthermore, other organisations and institutions in the region have shared and plan to share information about the funding available for transition. Survey respondents stated that information provided to date has been often very formalistic - with no concrete information about what can be supported, how the JTF differs from other available funds, when grant rounds will be announced and who is the responsible authority.

LEVEL OF AWARENESS

The level of awareness varies according to the target groups, geographic location and depending on the financial instrument. In general, NGOs and municipal authorities tend to be more aware of Operational Programme grant opportunities than SMEs. All the target groups have very low awareness of the variety of financial instruments offered by commercial banks such as low interest or interest free loans and services, including EU grant advisory services offered that can help access the funding. SMEs and NGOs in district cities and urban areas and representatives from larger municipalities tend to be better informed than those in rural areas.

According to survey respondents, preferred channels of information are the mainstream media and online channels like social media, dedicated webpages and webinars.

SMEs – SMEs tend to be less informed about or interested in grant programmes than the other target groups. SMEs that are clients of consultancies and receive regular mailings are better informed. SMEs often depend on “word of mouth”. If companies have a good or a bad experience with a programme, word of mouth spreads very quickly and affects interest in that programme. When word of mouth is negative regarding a grant programme, the resulting reputational damage is very difficult to reverse.

NGOs and Municipal authorities – NGOs are aware of and actively seek information about grant programmes including the Just Transition Fund since grants are key to their business model. However, NGOs have a very low level of awareness about financing and services of banks. Respondents stated that they prefer to receive information from online sources and social media.

1. Dotační bulletin pro obce

2. Operační program Spravedlivá transformace 2021–2027

3. Uhebné regiony

4. Fond pro spravedlivou transformaci

The level of municipal authority awareness depends on their location. Municipalities in the coal basin and core area more informed, while the municipalities in the Ohře river area, Recreational areas and the Šluknovsko area less informed. Municipalities that are members of associations also have a higher level of awareness of available grants.



LEVEL OF PREPAREDNESS

SMEs - Many SMEs either do not understand or identify with the term “just transition”, and even react negatively to the term itself. Very few are preparing for just transition. Furthermore, some SMEs have negative perceptions of EU funds and take pride in not using them. However, many SMEs are interested in and are preparing for digitalisation, energy efficiency improvement and other projects that could increase their competitiveness, reduce costs and at the same time contribute to the just transition. Their level of preparedness depends on several factors, including their size and level of development, whether they have a business development plan and whether they work with consultancies. However, respondents stated that they view the administrative and financial complexity of project preparation for grants as a burden. Often, they are not able to create a meaningful proposal within the time allotment for proposal preparation, especially if grant rounds are announced in an ad hoc manner.

NGOs and Municipal Authorities - Respondents with experience in EU projects found them extremely beneficial, but NGOs also find the administration of EU grants awarded through OPs to be burdensome. They also have problems with a limited ability to prefinance and co-finance these grants. Another issue in the Ústí region is that many NGOs do not engage in activities and projects that align with the goals and objectives of the just transition, but rather provide social services. Most Municipal Authorities are relatively well prepared to use funding from the OPs, and but the focus of the OPs needs to be in line with their municipal plans. Most have development plans, but few are aligned with the Green Deal and consequent objectives of OPs.



GENERAL FINDINGS

1

Insufficient feeling of urgency and a poor understanding of the just transition - While Ministries and Regional Authorities have provided information about the JTF and other funds, there has not been a sufficient public dialogue about the risks and opportunities of the restructuring under the JTF. The lack of active engagement with the potential fund users is likely to result in lower uptake of the funding opportunities.

2

Low level of SME engagement – There was a low level of participation in or willingness to participate in our and other research among SMEs. The most common reason was no time for surveys or no interest in grants. Also, national authorities actively communicated news about the JTF from early 2021, but to date there is no concrete information available about how to access the funds or how they will be allocated and distributed, which is resulting in a loss of interest and momentum.

3

Lack of common language – Ministerial and regional authorities use different terminology and concepts that can be misunderstood by average citizens. Authorities communicate about EU funds (e.g. Just Transition Fund, Modernisation Fund, etc) and climate goals while owners of SMEs, representatives of NGOs and small municipalities deal with OPs and their needs are framed more in terms of increasing efficiency and productivity, cost reduction, increased profit margins, and reaching new customers. This shows a misalignment of terminology and language. As a result, the available EU funding is not promoted in a way that meets the needs and priorities of the SME owners and private sector stakeholders.

4

Operational programmes are siloed – There is little coordination among OPs regarding their objectives and how they apply to the transition of the coal regions and application processes vary.

5

Banks and consultancies can play an important role in generating interest among SMEs. SMEs are used to dealing with "their" bank, so this approach can have a positive effect on the absorption capacity of the programme and the take-up of SMEs. Several commercial banks provide EU and national funding advisory services, as well as refinancing and technical assistance. The Czech Development Bank also provides consultancy and financial products, including interest-free loans and guarantee programmes for SMEs and municipalities that can finance investments in line with the just transition needs and priorities.



BARRIERS TO APPLYING FOR FUNDING



01

Administrative Burdens

Respondents perceive that the administrative complexity of programmes is steadily increasing. A study by ČVUT of OPPIK and OPZP documents that during two programming periods (2007–2013 and 2014–2020) the burden of transaction costs in both cases increased significantly.

The length of the whole administration process is problematic. One respondent stated that the process from the publication of a grant round to approval can take 10 months.

02

There are five OPs as well as commercial and development bank financial instruments that are relevant to the just transition process. Furthermore, some OPs support similar issues, especially renewable energy and energy efficiency, making it difficult to choose the most appropriate OP according to the legal form and location of the applicant and the size of the grant. Most SMEs, NGOs and Municipal Authorities do not have the capacity or expertise to orient themselves in these funding mechanisms.

Each OP has its own unique application process and conditions so potential applicants need a relatively high level of expertise to apply.

Complexity of available funds

03

Sustainability of grant funding

Even though grant funding can be a more efficient and cost-effective instrument with a significantly higher leverage effect, sustainability is a question. The main concern is whether it is advisable to do activities that need to be supported by subsidies if there is no guarantee of follow-up funding or commercial viability.

The short-term length funding is a problem, especially if the process is viewed as long and complicated – the private sector stakeholders see too little reward for the effort and time required.

04

There is a belief that follow-up audits of project can result in the need to return funds if the interpretation of the audit body differs from the interpretation during project implementation.

There is a belief that if a project is for less than CZK 1 million, it is not worth applying for a grant because of the administrative burden.

Myths and misinformation about EU Funds

RECOMMENDATIONS



Regional Authorities should organise a coordinated information campaign with the main important organisations in the region (e.g. ICUK, MAS, HSR UK, CzechInvest, Association of Local Authorities, Chambers of Commerce) to provide information about funding opportunities from Operational Programmes, Commercial Banks and the Czech Development Bank to SMEs, NGOs. This can be based on a mapping of Operational Programmes, commercial bank products and consultancies providing technical assistance for EU funding that can finance projects that contribute to the just transition. Any such event and its content should be tailored to meet the needs and priorities of the local businesses, highlighting the variety of benefits and advantages arising from the use of EU funding or different financial instruments.



Regional Authorities should consider creating a platform for discussion, information sharing and partnering including possibilities for co-financing and prefinancing, as well as providing information about all available funding, both private and public that can contribute to the transition. The Innovation Centre of Usti Region could host these.



Regional Authorities could establish a fund for small municipalities, NGOs and SMEs to fund technical assistance from professional consultancies on EU funds.



Operational Programmes should avoid duplication so that two programmes do not target the same area (as was the case, for example, with energy savings, which led to low interest in the financial instrument compared to the investment subsidy)



OPs need to plan and announce grant calls and deadlines well in advance, and ideally in an annual, widely available and distributed calendar based on the example of OPPIK.



Operational Program Just Transition should scale up proven instruments such as innovation vouchers.



Ministries should establish an inter-ministerial commission to simplify and unify as much as possible application processes and formats for all Operational Programmes. Administrative processes should be simplified for smaller projects to decrease transaction costs.



The Ministry of Regional Development should work with municipalities to help them align their development plans with the National Energy and Climate Plan of the Czech Republic, as well as Fit for 55.



Operational Programmes and relevant Ministries should publish and promote success stories and best practice investment cases to generate interest in grant programmes, as well as “myth busters” reports refuting common myths about EU funds that discourage applicants.

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