1 Infrastructure governance and investment trends overview

This chapter provides an overview of the Czech public investment system across levels of government. It depicts the landscape of infrastructure governance at the national and subnational levels and finds that the infrastructure-decision-making process in Czechia is fragmented across sectors and levels of government. Major trends and issues in infrastructure investment are highlighted, including the significant role of EU funds. Finally, it provides an overview of institutions in the transport, housing and energy sectors, as well as cross-sectoral institutions.

Quality infrastructure investment is critical to delivering Czechia's key policy priorities, including facilitating the green transition, building resilience and addressing regional disparities. Yet Czechia is facing infrastructure investment gaps in areas such as transport, digital infrastructure, green and climate transition infrastructure and affordable housing. These gaps are even larger in lagging regions, despite high levels of public investment supported by European Union (EU) Funds. Current national and subnational institutional frameworks also pose challenges to a whole-of-government approach to infrastructure planning, investment and delivery. Improving infrastructure investment outcomes is essential to addressing these long-term challenges, as well as responding to crises such as the COVID-19 pandemic and Russia's war of aggression against Ukraine.

This report focuses on infrastructure governance: the policies, frameworks, processes and tools used by public bodies at all levels to plan, make decisions, implement and monitor infrastructure investments. It considers all the life stages of a public infrastructure asset, starting from planning, prioritisation and funding through to design, procurement, construction, operation, maintenance and decommissioning. The report evaluates the extent to which Czech institutions and decision-making processes at the national and subnational levels foster efficient and effective investment. It makes concrete and actionable recommendations for strengthening Czechia's capacity to prioritise, design and implement sound infrastructure investments.

This first chapter provides an overview of institutions and decision-making processes at various stages of Czechia's infrastructure lifecycle and supports the analysis in Chapter 2 (national infrastructure investment) and Chapter 3 (subnational infrastructure investment). It provides an overview of the government structure and infrastructure decision-making processes, followed by a description of trends, issues and institutions in three key sectors (transport, housing and energy), as well as cross-sectoral institutions.

1.1 Infrastructure governance in Czechia

National governance involves ministries and state funds

The Government of Czechia is appointed by the President and consists of the Prime Minister and ministers. There are currently 18 members of the government: the Prime Minister, 14 ministers in charge of the respective 14 ministries and another 3 ministers with special portfolios (Science, Research and Innovation; European Affairs; Legislation and Chair of the Legislative Council) (Government of Czechia, n.d.[1]).

Although the government shares the legislative initiative with Parliament, the Senate and regional councils, it is the government which most often submits draft proposals, especially those of a complex nature. All draft legislation is sent to the Government Legislative Council for review and scrutiny for compliance with Czechia's constitutional principles, international treaties, EU law, other laws in force and the rules of the legislative process (Government of Czechia, n.d.[2]).

Ministries' competences and mandates are defined in the 1969 Competency Law.[1] The Competency Law also defines the mandates of an additional 17 central state administration bodies, such as the Czech Statistical Office, the Office of the Government, and the Czech Telecommunications Office (Czechia, 1969[3]). The Competency Law has been subject to several amendments creating, changing or abolishing institutions.

As competences are defined by legislation, infrastructure investment takes place in a rather rigid framework in which it can be difficult to respond and adapt to changes in interrelations among government activities, and to address issues which cross ministerial competences. Responding to emerging or newly important issues – such as crisis management, the green transition and climate change – which require effective horizontal co-ordination and planning between ministries and where roles are not always clearly assigned by the Competency Law can be particularly challenging (OECD, 2023[4]).

Alongside the ministries which directly oversee infrastructure investments within their competences, another set of stakeholders in Czechia have a significant bearing on public infrastructure investment: the states funds. State funds are independent legal entities established by law. The framework for their establishment is enshrined in the Budget Rules, which define state funds as "legal entities established for the financial security of specially defined tasks and the management of funds earmarked for them." Individual funds are based on dedicated laws which define their operating parameters and characteristics. There are currently six state funds, and their revenue and expenditure in 2022 are shown in The state funds most involved in infrastructure investment – the State Fund for Transport Infrastructure, the State Environmental Fund and the State Investment Support Fund – were three of the four largest funds by revenue and expenditure in 2022.

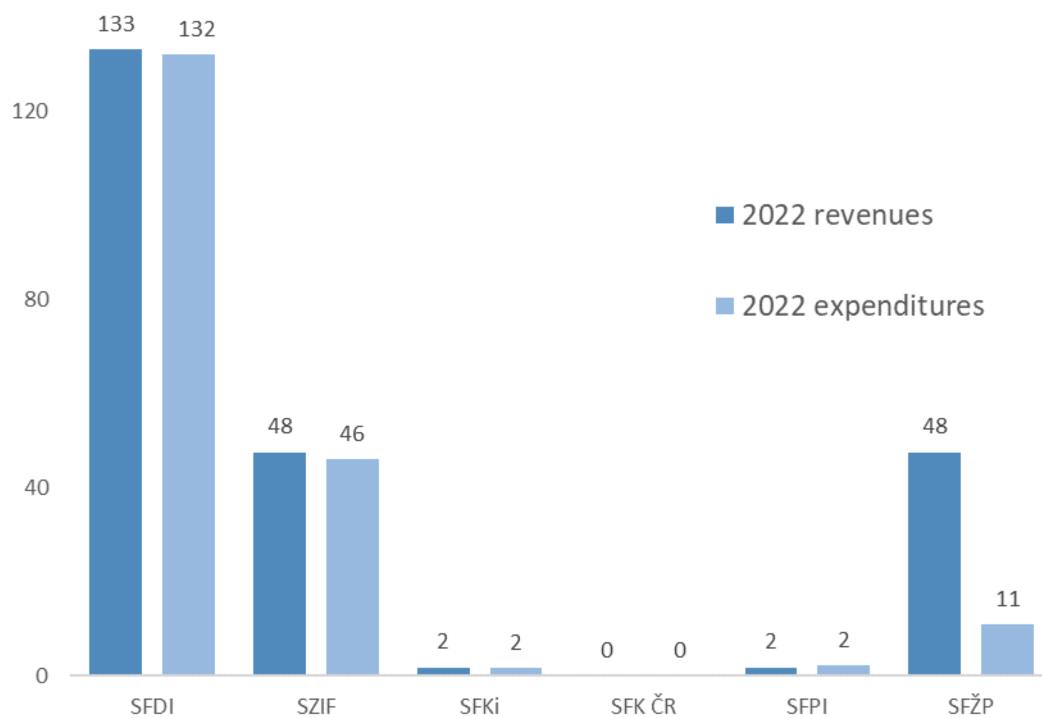
Figure 1.1:

1. State Fund for Transport Infrastructure (SFDI)
2. State Agricultural Intervention Fund (SZIF)
3. State Cinematography Fund (SFKi)
4. State Culture Fund (SFK ČR)
5. State Investment Support Fund (SFPI)
6. State Environmental Fund (SFŽP)

The state funds most involved in infrastructure investment – the State Fund for Transport Infrastructure, the State Environmental Fund and the State Investment Support Fund – were three of the four largest funds by revenue and expenditure in 2022.

Figure 1.1. The State Fund for Transport Infrastructure is the largest of the six funds

State funds revenues and expenditures in 2022, CZK billions



Note: SFDI: State Fund for Transport Infrastructure; SZIF: State Agricultural Intervention Fund; SFKi: State Cinematography Fund; SFK ČR: State Culture Fund; SFPI: State Investment Support Fund; SFŽP: State Environmental Fund.
Source: (Ministry of Finance, 2023[5]), *State Final Account of Czechia for the Year 2022*. https://www.mfcr.cz/cs/rozpoctova-politika/statni-rozpocet/plneni-statniho-rozpoctu/2022/statni-zaverecny-ucet-za-rok-2022-51132

State funds play a significant role in infrastructure investment. For example, the approved 2023 state budget included CZK 84 billion (approximately EUR 3.4 billion) in investment transfers to state funds, compared to only CZK 41 billion (approximately EUR 1.6 billion) in direct state acquisitions of tangible assets and CZK 10 billion (approximately EUR 410 million) in investment transfers to municipalities and regions (Ministry of Finance, 2023[6]). Similarly, in the transport sector, investment expenditure by the State Fund for Transport Infrastructure (SFDI) represented on average 88% of total annual investment expenditure on transport infrastructure between 2010 and 2022 (Ministry of Transport, 2010-2022[7]) (State Fund for Transport Infrastructure, 2010-2022[8]).

The government plays a strategic role in identifying investment priorities, strengthening the capacities of the various levels of government involved in managing public investment, and ensuring sound framework conditions for the governance of public investment (OECD, 2017[9]). Line ministries are then responsible for infrastructure policy and strategic planning in their respective sectors. There are limited high-level co-ordination mechanisms; this role is fulfilled by ad hoc inter-ministerial councils or committees on specific topics. There are a number of these temporary and permanent councils and advisory bodies, most of which are under the Office of the Government (OECD, 2023[4]). While some of these councils are established to provide visibility and representation to minority groups or to address specific issues (e.g. the Council for Roma Minority Affairs, the Council for Gender Equality), others are tasked with steering and co-ordinating cross-cutting issues (e.g. the Government Council for Sustainable Development, the Research, Development and Innovation Council) (Government of Czechia, n.d.[10]).

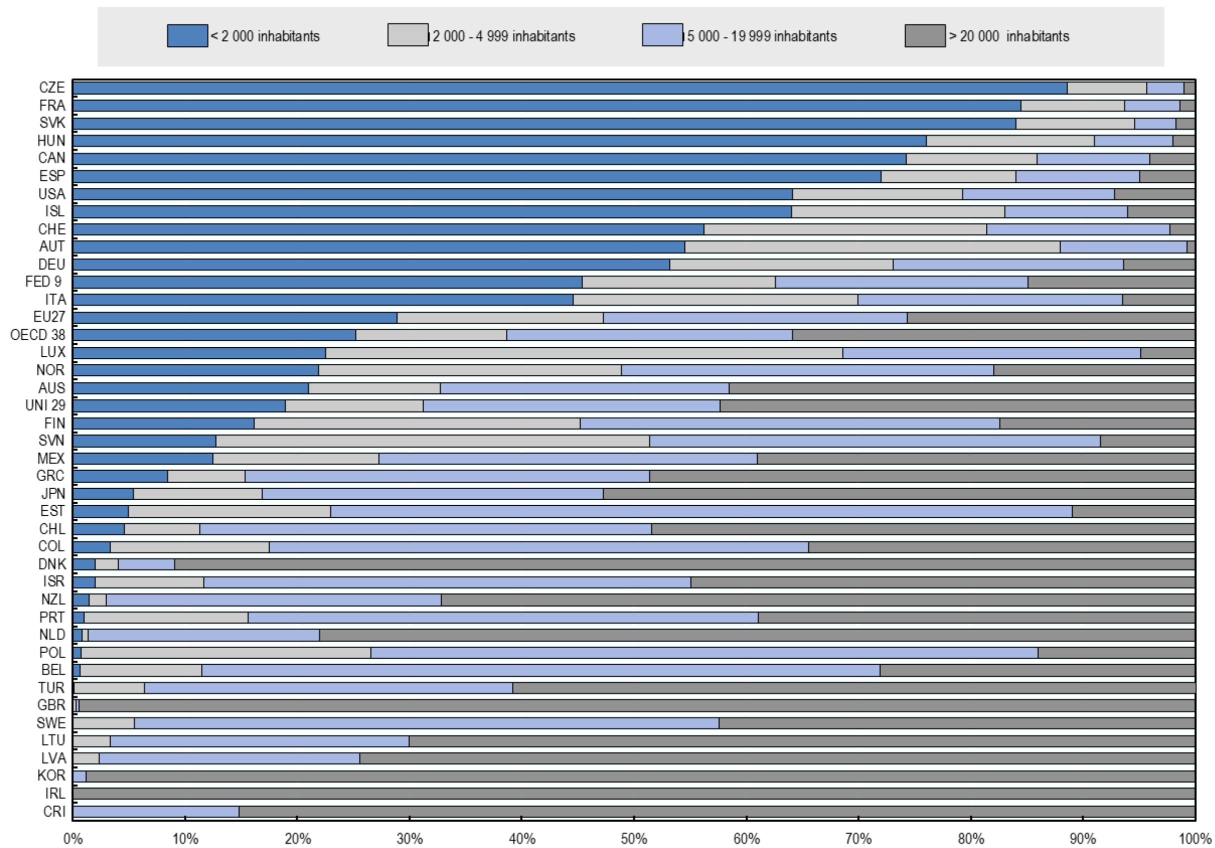
In June 2023, the government created the Committee for Strategic Investments, a permanent co-ordinating, initiating and advisory body. The committee will facilitate the implementation and support of strategic investments in the areas of transport, housing, energy, education and science, research and innovation. It will monitor and facilitate the implementation of existing strategies and help co-ordinate new strategies in its areas of responsibility; co-ordinate cross-cutting legislative proposals to accelerate their adoption and coherence; evaluate options and proposals to finance strategic investments; and identify opportunities to promote best practices. The committee is chaired by the Prime Minister and its membership includes a number of ministers with infrastructure-focused portfolios, the Chairs of the Association of Regions and the Union of Towns and Municipalities, the Presidents of the Chamber of Commerce and the Confederation of Industry and Transport, the National Security Advisor and the committee's Secretary. The committee has the power to establish temporary or permanent working groups which can be tasked with conducting analysis and preparing proposals and recommendations on specific issues. The committee will be supported by a secretariat under the Office of the Government (Government of Czechia, 2023[11]; Government of Czechia, n.d.[12]).

Subnational governance involves regions and multiple small municipalities

Successive reforms since 1989 have seen Czechia transition from a centralised system towards a system with two tiers of self-governing territorial entities. In 1990, the Constitution recognised local communities' right to self-government and designated municipalities as the basic structure for this new local self-government, with their own budgets and assets. In 1991, Law No. 367/1990 Coll., on Municipal Administration established self-governing municipalities with a high level of independence and simplified the process for creating new municipalities (by removing constraints or limits, such as a minimum number of inhabitants, or territory size). As a result, between 1990 and 1993, the number of municipalities increased by 50% (OECD, 2023[4]). The legal framework, organisation and responsibilities of municipalities was revised in 2000 with the adoption of the Law on Municipalities 128/2000, and the Law on the Capital Prague 131/2000 that gives a special status to the capital city. As of 2021, the municipal level comprised 6 258 municipalities of several categories, 604 cities/towns (*město*), 26 statutory cities (*statutarní město*) and 223 market towns (*městys*). Of these, 95.7% of municipalities had fewer than 5 000 inhabitants, and 88.6% had fewer than 2 000, with a median size of 442 inhabitants (OECD, 2023[4]). Czechia's average municipal size of 1 710 inhabitants per municipality is the smallest among OECD countries (Figure 1.2), and well below the OECD average of 10 250 (OECD-UCLG, 2022[13]).

Figure 1.2. Czechia has an above-average share of small municipalities

Municipalities by population class size, % of municipalities, 2022-2023



Note: Earlier years may have been used for some countries (based on last available census). The United States' size-classes are slightly different: less than 2 499 inhabitants, 2 500 to 4 999, 5 000 to 24 999, 25 000 or more. For Türkiye, metropolitan municipalities are not included to avoid double counting.
Source: (OECD, 2023[14]), *Subnational Governments in OECD Countries: Key data*. https://www.oecd.org/regional/multi-level-governance/NUANCIER%202023-3.pdf.

Reforms have also led to the progressive establishment of regions and the transfer of competences from the central government to regions and municipalities. The 14 self-governing regions were created in 1997 but were only effectively established in 2000 through Regional Act No. 129/2000 Coll., which transferred a series of responsibilities to the new entities. The act entered into force in 2003 after creating the conditions for the regions to function effectively (OECD, 2023[4]). Decentralisation continued with the replacement of 77 district offices (former administrative divisions executing state administration at the local level) by municipalities with extended competences, which became effective from January 2003. Since then, districts exist solely as territorial units and remain the seats for some offices, notably the courts, police and archives. The Act on Territorial Division of the State, in effect since 2021, aims to simplify the system of state territorial administration by completing the transition from the system of districts to the delegation of functions at the municipal level (OECD, 2023[4]). With this, Czechia finalised its transformation into a combined or mixed model of public governance involving a two-tier system of territorial self-government, i.e. a model with municipalities and regions carrying out both their own self-governmental or autonomous competences and competences delegated by the central state administration.

Municipalities differ in the extent of their delegated competences:

- At the upper level, 205 municipalities have "extended powers" to fulfil several administrative functions delegated by the central government on behalf of smaller surrounding municipalities (e.g. maintaining civil registers, issuing identity cards and driving licences, co-ordinating social services).
- At the intermediate level, 388 municipalities (including the 205 municipalities with "extended powers") have an "authorised municipal authority" to perform delegated functions, but on a smaller scale (e.g. operating the building authority and registry office, offering social assistance, administering war graves), and with a specific agenda for environment and agriculture.
- At the primary level, all municipalities have basic delegated powers (e.g. holding elections, maintaining population records, managing water management). Smaller municipalities can also delegate additional functions to the intermediate and upper-level municipalities through public law contracts if they are unwilling or unable to provide them due to a lack of capacity (OECD, 2023[4]).

Regional governments also have autonomous and delegated competences. Regions are responsible for several functions related to the development of their own territory: for example, they approve planning and zoning documents and are responsible for regional economic development and environmental protection. They are also responsible for regional transport.

As a result of these successive reforms, regions and municipalities in Czechia have significant responsibilities for infrastructure and service delivery in the areas of education, health, utilities, social protection and economic affairs (Table 1.1). Regarding infrastructure, municipalities are responsible for building utility networks in their territory (e.g., sewerage, including connection to wastewater treatment plants; gas, water and heat supply); constructing local roads, parking spaces, pavements; building leisure facilities (e.g. playgrounds and sports grounds, facilities for cultural and social activities in larger municipalities); and maintaining local public and green spaces. Meanwhile, regions are responsible for building and maintaining Class II and III roads. They are also in charge of establishing and managing the regional hospitals, as well as establishing social service centres, homes for the elderly, shelters, residential homes and other social service institutions.

Table 1.1. Municipalities and regions have specific roles related to infrastructure

Local government	Public utilities/transport	Social services	Health	Education
Municipalities				
Infrastructure	Municipal roads and streets	Asylum housing, residential services for the elderly	--	Pre-school facilities and primary schools
Competences	Maintenance, construction and repairs	Provision of social services	--	--
Source of funds and their use	Municipal budgets, and grants	Municipal budgets, subsidies and grants	--	Financing operating costs and investments for construction and renovation of facilities
Regions				
Infrastructure	Class II and Class III roads	Building social service centres, homes for the elderly, shelters, residential homes, etc. as contributory organisations	Building and managing regional hospitals and medical rescue services	Building and managing secondary schools and higher vocational schools
Competences	Management, maintenance and repair	Maintenance of the register and quality control of the services provided	Authorisation of provision of health services	Allocating funds from the state budget for pedagogical and non-teaching staff salaries

				in the region's schools
Source of funds and their use	Regional budgets, state subsidies (SFDI), EU Funds (Regional Operational Programme)	Subsidies from the Ministry of Labour and Social Affairs. Allocation of funds	Operating costs and investments for constructing and renovating facilities	Regional budgets and subsidies. Operating costs and investments for constructing and renovating facilities

Source: Authors, based on (OECD, 2023[4]). *OECD Public Governance Reviews: Czech Republic: Towards a More Modern and Effective Public Administration*. https://doi.org/10.1787/41fd9e5c-en.

The infrastructure decision-making process in Czechia is fragmented

Given infrastructure's cross-cutting nature, multiple institutions and arrangements are responsible for and contribute to ensuring that investment achieves policy objectives. The governance arrangements and scope of action of these institutions vary from country to country, depending on history, constitutional arrangements and government capacities. Furthermore, these institutions often have complementary and sometimes overlapping responsibilities, creating an additional level of complexity (Ruiz Rivadeneira and Mcmaster, 2023[15]).

In Czechia, the national government takes a sectoral approach to infrastructure governance and decision making. Each line ministry is primarily responsible for infrastructure policy and for making decisions on planning and investing in their sector. With each ministry generally planning and prioritising projects related to their own sectoral remits, the roles of infrastructure planning, financing and delivery are spread across a number of institutions. This sectoral approach is mirrored at the subnational level. As a result, processes can differ significantly depending on the sector and whether responsibility lies primarily with the central government or with regions and municipalities. This approach has the advantage that line ministries and other sectoral bodies or local governments often have specialised technical, sectoral or local knowledge that can contribute to more efficient and effective infrastructure planning and delivery. However, the increasing number of cross-sectoral policy challenges can create potential responsibility overlaps, gaps and co-ordination issues (Ruiz Rivadeneira and Mcmaster, 2023[15]). This siloed approach also reduces opportunities for understanding the territorial impact of infrastructure investments. Place-based infrastructure planning requires a cross-sectoral approach that understands the territory and the complementary investments that are needed.

The Spatial Development Policy of Czechia (Ministry of Regional Development, 2021[16]) is a national spatial planning document prepared by the Ministry for Regional Development[2]. It serves mainly as a tool for co-ordinating spatial development at the national level, as well as spatial planning activities by regions and municipalities. It defines nationally relevant areas, axes and corridors (for example, for high-speed rail lines, motorways, or large water works). It does not include project details or constitute project approval, but only requires that the identified areas, axes and corridors be reflected in subsequent regional and municipal spatial planning documentation.

Regions develop their own regional spatial plans, which define the areas and corridors which require a more thorough examination. Where appropriate, they set out the sequence of development for the region and requirements for municipal planning. Municipalities also develop strategic development and spatial plans. Strategic development plans set the direction and priorities for the municipality's development. While such plans are not mandatory, they are important when applying for grants and other support from the state budget and EU funds. Larger municipalities are more likely to have strategic development plans; a 2015 survey found that more than 90% of municipalities with over 10 000 inhabitants had a strategic plan (Ježek, 2015[17]). Municipal spatial plans are mandatory, and function primarily as a regulatory tool that sets direction and limits on land use. The Ministry of Regional Development currently operates a web application, ObcePRO,[3] to support municipalities and associations of municipalities in preparing their development programmes. The application also allows for monitoring and evaluating implementation.

Table 1.2 provides an overview of the roles and responsibilities of the various institutions throughout Czechia's infrastructure lifecycle. Given the diversity of processes across sectors, this is only illustrative.

Table 1.2. Roles and responsibilities in Czechia's infrastructure lifecycle are fragmented

Infrastructure lifecycle stage	Process and institutions responsible
Strategic planning	At the national level, line ministries are responsible for developing strategic plans for specific sectors. These plans set objectives, identify priority areas and outline the strategic direction for infrastructure projects. The consultation process includes formal commentary from other ministries, as well as consultation with stakeholders (e.g. regions and municipalities) and the public. Municipalities and regions are responsible for spatial planning at the local level, as well as local planning for the infrastructure and services they provide (e.g. public transport).
Prioritisation and funding	Line ministries are responsible for project appraisal and prioritisation within their sector. Different prioritisation and appraisal methodologies are used to select projects aligned with available funding and strategic plans. Line ministries and state funds operate grant and loan programmes to fund municipal and regional infrastructure. The Ministry of Finance is responsible for budget allocations for line ministries, regions and municipalities (including co-financing from EU funds) and for reviewing ministries' multi-year plans and major projects. State funds allocate funding for infrastructure investments, as well as providing loans and guarantees for national and subnational entities. The National Development Bank can provide project financing and advice in certain circumstances, including for subnational governments (e.g., for public-private partnerships).
Design, procurement and construction	Depending on the sector, projects may be delivered by ministries, regions and municipalities, or other public bodies (e.g. Railway Administration). Depending on the size and nature of the project, planning and construction permissions are the responsibility of municipalities and regions, or the Transport and Energy Construction Authority. Environmental impact assessments are similarly the responsibility of municipalities and regions or the Ministry of the Environment. The Ministry of Regional Development is responsible for procurement policy at the national level.
Operations, maintenance and decommissioning	Throughout the maintenance and operating phase, relevant institutions, for example the Roads and Motorways Directorate in the case of highways, are responsible for undertaking maintenance and operations, while line ministries establish policies and the Ministry of Finance and state funds finance operations, maintenance and renewal. Municipalities and regions are responsible for the operation and maintenance of the infrastructure assets they own.

1.2 Trends in infrastructure investment in Czechia

COVID-19 and the Russian war of aggression have affected Czechia's fiscal position

Czechia's post-COVID recovery was disrupted by the Russian war of aggression against Ukraine. Increases in energy and commodity prices and disruptions to oil and gas imports from Russia triggered a cost-of-living crisis. High uncertainty and energy price increases resulted in declines in consumer and business sentiment and real wages fell steeply. Growth in gross domestic product (GDP) slowed to 2.5% in 2022, with core inflation among the highest in the EU. The OECD's 2023 Economic Survey forecasts that economic growth will be subdued in 2023, before picking up in 2024 (OECD, 2023[18]).

Czechia is making progress towards all the United Nations Sustainable Development Goals (SDGs), but is lagging behind the EU average for some targets, mainly those related to environmental sustainability. It performs extremely well on SDG targets related to equity such as zero poverty (SDG 1), decent work and economic growth (SDG 8), and reduced inequalities (SDG 10) (European Commission, 2023[19]).

While Czech public debt is low (44.1% of GDP in 2022 compared to the EU average of 85.3%), the structural deficit and medium-term risks have increased in the last three years. Expansionary fiscal policy, especially in 2020 and 2021, weakened the public finance position as Czechia responded to the challenges of the COVID-19 pandemic and the energy crisis resulting from Russia's invasion of Ukraine (European Commission, 2023[19]). To address these fiscal pressures, the government has committed to measures aimed at reducing the deficit by at least CZK 70 billion (approximately EUR 2.9 billion) in 2024 (Ministry of Finance, 2023[20]).

Czechia's challenging fiscal position may limit the near-term scope for significant new infrastructure investments funded through the national budget. This difficult environment increases the importance of strong infrastructure governance, which can improve outcomes from existing levels of investment rather than requiring expenditure increases. By improving the efficiency and effectiveness of infrastructure spending at all levels of government, Czechia can maximise the value of the investments it is able to make at a time of fiscal consolidation.

EU funds are a significant source of historical and planned infrastructure investment in Czechia

Before its accession to the EU, Czechia drew from three pre-accession instruments (Phare, SAPARD and ISPA programmes), which provided technical, economic and infrastructural expertise and assistance to support accession, as well as a focus on financing infrastructure projects in the areas of environment and transport (European Commission, n.d.[21]). Upon accession in May 2004, Czechia joined the 2000-2006 programming period, during which it accessed over EUR 1.69 billion overall from 2004 to 2006 across 13 programmes (Ministry of Regional Development, n.d.[22]).

In the next programming period (2007-2013), Czechia was allocated approximately EUR 26 billion under the cohesion policy through the European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF). In this period, infrastructure investment through the cohesion policy represented over 40% of total public investment, indicating its major role in Czech public investment[4] (European Commission, 2022[23]). Investment focused on the European Union cohesion policy objectives for the 2007-2013 programming period:

Convergence: aimed at promoting the economic and social development of regions with GDP per capita of less than 75% of the EU average. This objective was financed by the ERDF, ESF and CF and covered all Czech regions except the City of Prague.

Regional competitiveness and employment: this supported regions with GDP per capita of more than 75% of the EU average. This objective was financed by the ERDF and ESF, and only covered the City of Prague.

European territorial co-operation: this promoted cross-border, interregional and transnational co-operation between regions located along Member States' internal and certain external borders. This objective was financed by the ERDF (Ministry of Regional Development, n.d.[24]).

In the 2014-2020 period, EUR 22.7 billion were available to Czechia under the cohesion policy. Including national financing, the total investment amounted to EUR 29.6 billion, approximately 2.2% of GDP for 2014-2020 (European Commission, 2023[19]). Funding was delivered through the European Regional

Development Fund, Cohesion Fund, European Social Fund and Youth Employment Initiative. Infrastructure investments through the cohesion policy funds in this programming period still played a significant role in infrastructure investment, representing approximately one-third of national public investment (European Commission, 2022[23]).

Major infrastructure programmes included the Transport Programme, which invested in sustainable transport modes and removing bottlenecks on key network infrastructure; the Integrated Regional Programme, which sought to improve regional connectivity through investments in regional roads and the development of public transport; and the Environment Programme, whose priorities included improving water quality, reducing flood risks and enabling public sector energy savings (European Commission, 2023[25]).

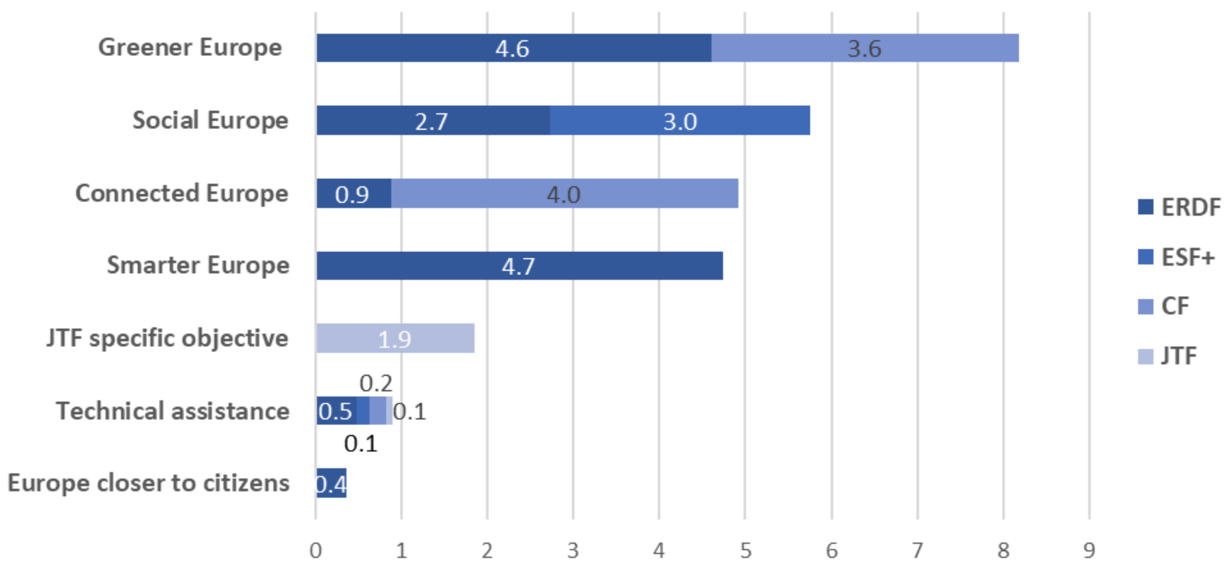
Planned investments during the current programming period are significant

Czechia will benefit from sizeable EU cohesion policy funds over the 2021-2027 period. The country's total allocation is EUR 26.7 billion (including both the EU share and national co-financing), divided among the European Regional Development Fund (EUR 13.8 billion), European Social Fund+ (EUR 3.2 billion), Cohesion Fund (EUR 29.2 billion), and Just Transition Fund (EUR 7.2 billion) (European Commission, 2023[26]). This funding is divided into five themes, with the Just Transition Fund and technical assistance making seven overall (see Figure 1.3 for the overall amounts for each):

- Greener Europe: investing in low-carbon transitioning towards a net zero carbon economy, the circular economy, climate change mitigation and adaptation, risk prevention and sustainable urban mobility.
- Social Europe: investing in a more social and inclusive Europe through the implementation of the European Pillar of Social Rights.
- Connected Europe: investing in enhanced sustainable mobility, including Trans-European Transport Network priorities.
- Smarter Europe: investing in a more competitive and smarter Europe by promoting innovative and smart economic transformation and regional ICT connectivity.
- Europe closer to citizens: fostering the sustainable and integrated development of all types of territories and supporting local initiatives.
- Just Transition Fund: The JTF supports regions most affected by the transition towards climate neutrality through the shift away from coal. In Czechia, this includes the regions of Karlovarský, Ústecký, and Moravskoslezký.
- Technical assistance: Investing in administrative capacity to manage complex investments and ensure quality governance.

Figure 1.3. Greener Europe accounts for Czechia's largest share of Cohesion Policy funds

Cohesion policy funds in Czechia by theme, EUR billions (2021-2027)



Note: Refresh date: 19 July 2023
Source: European Commission, Cohesion Open Data Platform, https://cohesiondata.ec.europa.eu/

Within the cohesion policy funds, investments in the green transition total EUR 14.1 billion. This amount includes: 1) investments through the ERDF to promote energy efficiency and help to improve the energy performance of around 750 000 square meters of public buildings; and 2) through the Cohesion Fund to support climate adaptation measures enhancing water retention, resulting in over 2 000 hectares of green infrastructure being built or upgraded. Across themes, investments in digital transformation total EUR 1.7 billion, and include measures to accelerate the building of very high-capacity networks to close deep digital divides between urban and rural areas in terms of coverage and exploitation (European Commission, 2023[19]).

Investments across themes are also aimed at addressing significant, though stable, regional disparities. While more developed regions suffer from unaffordable housing and pressures on transport networks, less developed regions face issues arising from demographic pressures, social exclusion and insufficient focus on areas such as the energy transition and digitalisation. The City of Prague is Czechia's most developed region, with a GDP per capita that was 203% of the EU-27 average in 2020. There are six moderately developed regions,[5] with 2020 GDP per capita ranging between 73% and 85% of the EU average. The poorest region (Severozápad) had a GDP per capita that was 61% of the EU average in 2020. While all the other Czech regions are converging on the EU average, Severozápad has persistently lagged behind (European Commission, 2023[19]).

Czechia is also benefiting from other EU programmes in the 2021-2027 programming period, notably the Connecting Europe Facility, which has allocated EU funding of EUR 462.6 million to 17 specific projects on strategic transport networks to date. The Public Sector Loan Facility under the Just Transition Mechanism also makes EUR 125 million of grant support available for projects over 2021-2027, which will be combined with European Investment Bank loans to support investments by public sector entities in just transition regions (European Commission, 2023[19]).

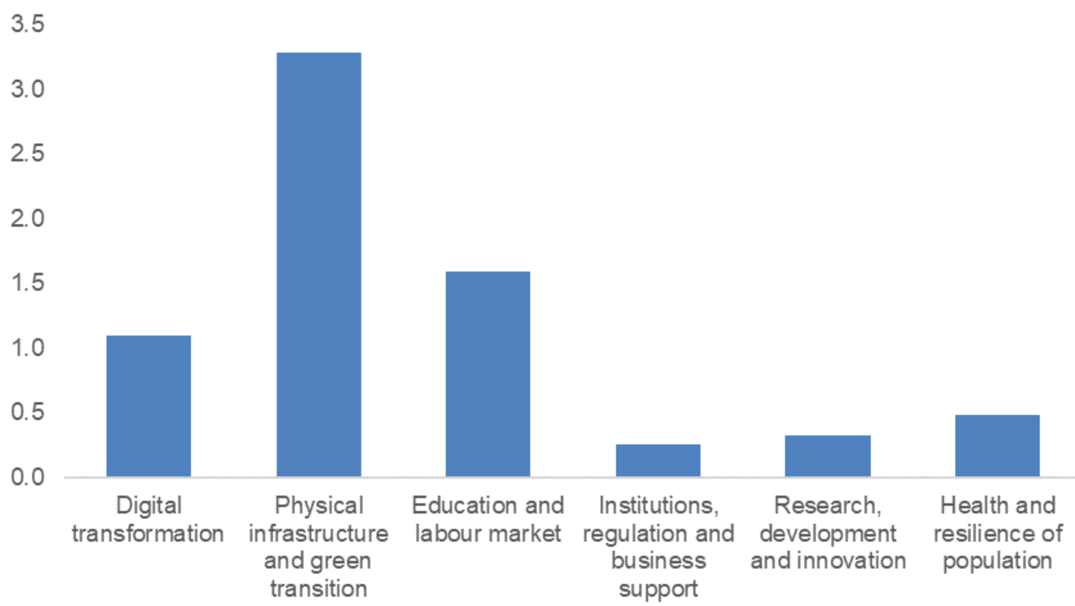
Czechia's Recovery and Resilience Plan includes a significant focus on physical infrastructure and the green transition

The Recovery and Resilience Facility is part of the EU's broader NextGenerationEU package and runs concurrently with the EU cohesion policy funding instruments. It will support Member States' investments and reform measures aimed at allowing them to emerge stronger from the COVID-19 pandemic. Czechia will receive grants totalling EUR 7 billion (2.9% of 2021 GDP) through this facility, to be disbursed by 2026 (OECD, 2023[18]).

Czechia's Recovery and Resilience Plan (RRP) details its approach to the use of Recovery and Resiliency Facility funds and was officially adopted on 17 May 2021 by Government Resolution No. 467. The plan was formally submitted to the European Commission on 1 June 2021, and approved by the Council of the European Union on 31 August 2021 (Council of the European Union, 2021[27]). The RRP has six main pillars (Figure 1.4).

Figure 1.4. Czechia's Recovery and Resilience Plan rests on six pillars

EUR billions



Source: Adapted from (European Commission, 2021[28]), *Analysis of the Recovery and Resilience plan of Czechia.*

As part of the physical infrastructure and green transition pillar, the RRP includes EUR 1.4 billion to finance large-scale renovation programmes to increase the energy efficiency of residential and public buildings, including childcare and long-term care facilities. This pillar also includes investments of EUR 1.1 billion in sustainable mobility, notably in low-emission vehicles for the public and business sector, improving railway infrastructure, and promoting electric charging stations and cycling pathways. Key infrastructure investments will also include EUR 227 million in very high-capacity networks (VHCN) as part of the digital transformation pillar. These allow for expanded and faster internet connectivity, particularly in less developed or rural regions that would benefit from better provision of digital services and business opportunities. The component also foresees the development of 5G networks, particularly in rural areas, both through reforms and investment. The plan also includes EUR 130 million to support the regeneration of brownfield sites owned by municipalities and regions (European Commission, 2021[28]) (European Commission, 2021[29]).

The RRP also includes measures to strengthen the capacity of the public administration and increase the efficiency of investment. Recently adopted amendments to the Building Act (152/2023 Coll.) are expected to shorten the length of time it takes to issue construction permits. Measures aimed at building administrative capacity are planned to support the delivery of public investment projects by providing methodological assistance to strengthen investment readiness and increase the use of public-private partnerships (PPP). The plan also intends to increase the use of non-price criteria in public procurement (European Commission, 2021[28]).

Finally, the EU launched the REPowerEU Plan after Russia's invasion of Ukraine to scale up renewable energy sources, boost energy efficiency measures and reduce dependence on Russian fossil fuels. The plan adds additional grants totalling EUR 20 billion to accelerate Member States' implementation of their climate and energy saving plans (European Commission, 2023[30]). Czechia will receive approximately EUR 680 million in additional funding for initiatives supporting energy security, an increase in the uptake of renewables and energy efficiency, an increase of energy storage capacities and a reduction in dependence on fossil fuels (Ministry of Finance, 2022[31]).

The size of planned investments makes strong infrastructure governance critical

Over the next decade, Czechia is expected to absorb approximately EUR 40 billion of EU funds (European Commission, 2023[19]). The Recovery and Resilience Facility and cohesion policy funds will require greater implementation capacity and efficient procedures to prepare and successfully deliver public sector investment projects. Absorption rates in Czechia remain above the European average, but were lower in the most recent programming period. In the 2004-2006 programming period, Czechia absorbed almost all its allocated financing (99.5%), falling slightly to 96% in the 2007-2014 period, and further to 84% for the 2014-2020 programming period (Ministry of Regional Development, n.d.[22]; Ministry of Regional Development, n.d.[32]; European Commission, 2023[33])

Sufficient implementation capacity is also needed to address the green and digital transitions and successfully seize the opportunities created by the European Green Deal and the Digital Europe Programme. The European Commission's 2023 country report found that low absorption capacity is a contributing factor to the growing disparities between the Severozápad region and other Czech regions (European Commission, 2023[19]).

1.3 Overview of key infrastructure sectors

This section provides a short overview of trends and challenges in three critical infrastructure sectors: transport, energy and housing. It also provides a brief description of the most important institutions (ministries, state funds, etc.) in these sectors, as well as cross-sectoral institutions involved in infrastructure investment.

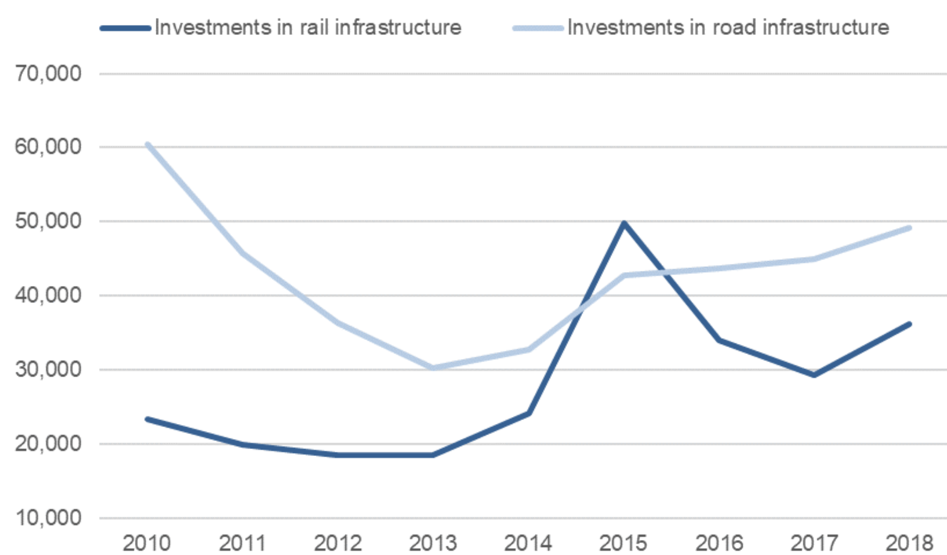
Transport investment is important for Czechia's green transition and regional equity

Transport is one of the sectors in Czechia with the highest emissions growth (European Commission, 2021[34]). It is therefore a key target for investment to support energy efficiency and reduce carbon emissions and air pollution (OECD, 2020[35]). Car ownership in Czech cities increased significantly after the fall of communism: in Prague it doubled – from 276 per 1 000 inhabitants in 1990 up to 550 in 2014 (Huerta Melchor and Gars, 2020[36]). The uptake of zero-emission road mobility has been modest, with the share of new electric vehicle registrations at only 3.8%, and only one-third of the railway network electrified (European Commission, 2023[19]). The European Commission's analysis of Czechia's RRP noted that upgrades to key areas of the transport infrastructure could boost the shift towards more climate-friendly and sustainable modes of transport. A modernised passenger rolling stock could increase the attractiveness and service quality of rail transport, while at the local level, modern and attractive public transport should help to reduce emissions (European Commission, 2021[28]).

After falling in the wake of the global financial crisis, public investment in transport infrastructure grew again during the second half of the 2010s (Figure 1.5). The 2022 Programme Statement of Czechia commits to creating an investment plan for transport and increasing the efficiency of funds spent on transport construction. The government has also committed to considering the use of public-private partnerships (PPPs) in transport infrastructure projects (see Section 2.4 in Chapter 2), while improving procurement practices more generally (e.g. ensuring transparent and fair selection procedures) (Government of Czechia, 2022[37]).

Figure 1.5. Public investment in rail and road infrastructure is increasing

CZK millions



Notes: Includes investment in motorways and Class I, II and III roads, but not in urban roads. Does not include investment in vehicles or rolling stock.
Source: (ITF, 2023[38]), "Transport infrastructure investment and maintenance", ITF Transport Statistics (database), https://doi.org/10.1787/g2g55573-en

Greater regional connectivity can help to advance economic development (ITF, 2023[39]). Connectivity in Czechia, including access to the country's transport network, is still relatively uneven and limits the development prospects of less developed regions. In 2018, more than 88.7% of the population of Prague lived within a radius of 120 km that could be reached in less than 90 minutes (on average). In Jihozápad and Severovýchod, two moderately developed regions, this share was only just over 50% (European Commission, 2023[19]). Infrastructure investment in transport connectivity through the RRP is aimed at levelling out these regional inequalities. The investment in public transport networks is particularly relevant for structurally disadvantaged regions, where the modernisation of rail infrastructure and investment in sustainable transport links are expected to help connect remote regions to economic centres, improving labour market outcomes (European Commission, 2021[28]).

Key transport sector institutions include the Ministry of Transport and the State Fund for Transport Infrastructure (Table 1.3).

Table 1.3. Four key institutions are involved in the transport sector

Institution	Description
Ministry of Transport (Ministerstvo dopravy, MD)	The Ministry of Transport is responsible for the state transport strategy and, within the scope of its competence, for its implementation. This includes developing the Transport Policy and associated sector strategies. The ministry works with the Ministry of Finance to determine the expenditure framework for transport investment. It also works with the State Fund for Transport Infrastructure (SFDI) in preparing the available financial resources and drafting the outlook for the infrastructure financing framework for future years. The planning is typically done with a one-year perspective, in which concrete financial resources are granted by the government to transport. The outlook for future years is for information purposes.
State Fund for Transport Infrastructure (Státní fond dopravní infrastrukury, SFDI)	The State Fund for Transport Infrastructure's objectives are the development, construction, maintenance, and modernisation of roads, motorways, railways, and inland waterways. The SFDI has the largest budget of all Czechia's state funds. In 2023, its budget totalled CZK 150.9 billion (approximately EUR 6.4 billion), of which CZK 46.6 billion (approximately EUR 2.0 billion) was allocated for operational expenditures and CZK 104.3 billion (approximately EUR 4.4 billion) for capital investment. Of this total, CZK 65.5 billion (approximately EUR 2.8 billion) was allocated to the Motorway Directorate and CZK 70.4 billion (approximately EUR 3.0 billion) to the Railway Administration. A further CZK 6.0 billion (approximately EUR 250 million) per year (for the 2023 budget year and the medium-term outlook for 2024 and 2025) were allocated to Class II and III roads, which are under the competence of the regions. SFDI revenues are provided from a road tax, a percentage of the excise duties on hydrocarbon fuels and mineral oils, and motorway tolls and charges. In addition, EU funds provide complementary funding, totalling CZK 27.6 billion (approximately EUR 1.2 billion) in 2023 (State Fund for Transport Infrastructure, 2022[40]). The SFDI is administered by a committee chaired by the Minister of Transport and composed of members selected by the government. A supervisory board is elected by the Chamber of Deputies to oversee its operation and management (State Fund for Transport Infrastructure, n.d.[41]).
Road and Motorway Directorate (Ředitelství silnic a dálnic ČR, ŘSD)	The mission of the Road and Motorway Directorate (ŘSD) is primarily the construction of roads and motorways, as well as the maintenance and repair of motorways and Class I roads.[6] The ŘSD undertakes activities for the preparation and implementation of construction, upgrading and repair, including the proper handover of the works to the subsequent administrators in the case of Class II and III roads. The ŘSD is also responsible for implementing the approved transport policy and strategy for Class I roads and motorways. Currently, more than 7,127 kilometres of motorways and Class I roads are under the management of the ŘSD, of which more than 1,360 kilometres are motorways. The ŘSD will become a state enterprise in 2024. In its current legal form, it is bound by general government regulations on salaries and hiring. Becoming a state-owned enterprise is expected to improve how it hires and retains technical experts, and allow it to insource currently outsourced functions (Ministry of Transport, 2021[42]).
Railway Administration (Správa železnic, SŽ)	As the manager of state-owned railway assets (over 9,400 kilometres of track, over 2,500 stations and stops and over 6,00 bridges), the Railway Administration's main activities include maintaining existing infrastructure and preparing and implementing projects to modernise and expand the network. It also manages the Czech and foreign carriers operating on its network (Railway Administration, n.d.[43]). In 2022, the Railway Administration's total budget was CZK 66.9 billion (approximately EUR 2.8 billion), including CZK 42.5 billion (approximately EUR 1.8 billion) in capital investments (Railway Administration, 2023[44]). It is overseen by a Supervisory Board whose members are appointed by the government on the recommendation of the Minister of Transport.

Energy investments can help reduce Czechia's high emissions

Czechia has some of the highest per-capita greenhouse gas (GHG) emissions in the EU, and the emissions intensity of its GDP is also above the EU average. This is largely due to its significant reliance on coal, large transport sector and inefficient energy use (European Commission, 2021[28]). In 2019, coal accounted for one-third of total energy supply, 46% of electricity generation and over 25% of residential heating (IEA, 2021[45]). Energy intensity per unit of GDP is also considerably higher than in many other OECD countries, driven in part by the energy-inefficient stock of residential buildings. Energy use in Czech dwellings, per square metre, is among the highest in the EU, partly because of the large share of older buildings. Nevertheless, Czechia has made headways in reducing its GHG emissions over the past three decades, including significant reductions in the share of coal in the primary energy supply (OECD, 2023[18]).

The International Energy Agency's (IEA) 2021 Energy Policy Review of Czechia found that more efforts are needed to reach the target set out in its National Energy and Climate Plan of reducing GHG emissions by 30% compared to 2005 levels by 2030. After declining noticeably from 2005 to 2015, total greenhouse gas emissions have remained relatively stable at approximately 17% lower than 2005 (IEA, 2021[45]). Along with the GHG impacts, a reliance on coal and emissions from road transport and residential housing means that more than 75% of the population is exposed to harmful levels of air pollution (OECD, 2021[46]). Czechia's high reliance on fossil fuels calls for a faster roll-out of renewables and energy efficiency investments, as well as a diversification of energy supply sources. As Czechia reduces its use of coal, a broad range of technologies, including solar, wind, geothermal, hydrogen and biomethane, could be developed further to substitute for natural gas imports, particularly in households and industry (European Commission, 2023[19]). Intermediate plans to reduce GHGs, which relied on switching from coal to natural gas for energy general and heating, have been delayed by the Russian aggression against Ukraine, which led to a significant increase in the price of natural gas.

GHG emissions per capita differ across regions. The per-capita emissions in the majority of large regions are below 10 tons of carbon dioxide equivalent (tCO_2e) per capita. Only the Central Bohemian Region, Moravia-Silesia and Severozápad exceed the OECD average per-capita emissions of 11.5 tCO_2e. Severozápad's estimated per-capita emissions are more than 12 times higher than those of Prague (OECD, 2021[47]). All regions use coal in electricity generation, with Prague depending exclusively on coal for electricity.

Initiatives being undertaken under the RPP are designed to contribute to the ambitious EU targets of reducing GHG emissions by 30% by 2030 compared to 2005, and of achieving carbon neutrality by 2050, through an optimal energy mix and the use of renewable energy sources (European Commission, 2021[28]). For example, they seek to tackle the regulations and lengthy construction processes that have been barriers to green investment in Czechia. The new Building Act (No. 283/2021 Coll.) has made important changes aimed at reducing waiting times for renovations or new construction projects. In addition, an amendment to the Energy Act (No. 458/2000 Coll.) has increased the threshold for the obligation to hold a licence for electricity generation from 10 kW to 50 kW. The same threshold will also apply to building permits for renewables projects, shortening construction lead times and reducing the barriers to investing in renewables (OECD, 2023[18]). Czechia's main energy sector institution is the Ministry of Industry and Trade (Table 1.4).

Table 1.4. The Ministry of Industry and Trade is Czechia's main energy sector institution

Institution	Description
Ministry of Industry and Trade (Ministerstvo průmyslu a obchodu, MPO)	The Ministry of Industry and Trade (MPO) is the central state administrative body for state industrial policy, trade policy, foreign economic policy and energy policy. It is also the central body for promoting entrepreneurship and investment in manufacturing and industrial R&D, technology and engineering, including the use of European funds in this

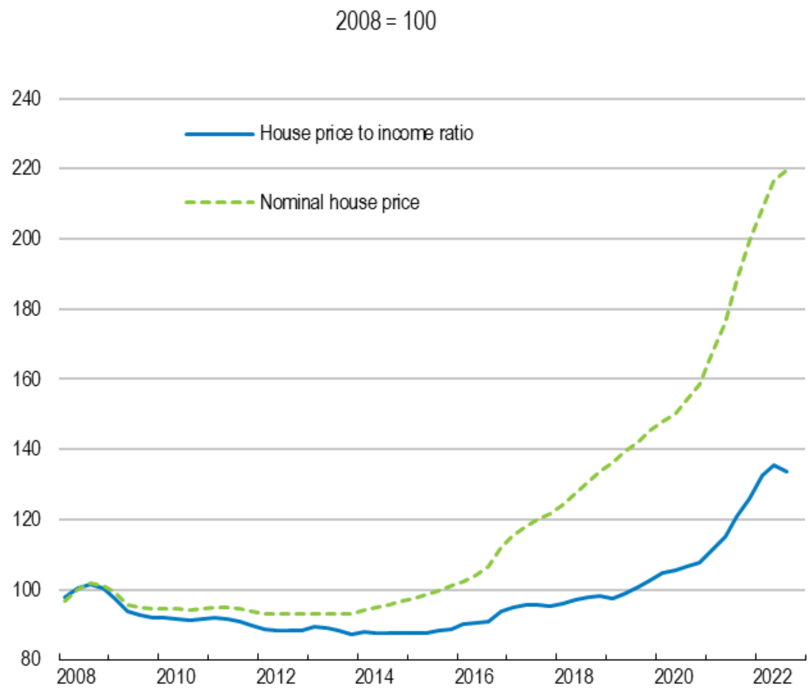
	area. The MPO is tasked with developing and implementing energy policies, including the State Energy Policy – the main strategic document guiding energy policy in Czechia (IEA, 2021[48]). The MPO consults with municipalities and regions on project investment plans during their preparation and implementation. It works with the Ministry of Finance on a broad range of aspects related to the conditions and parameters of subsidy programmes, the approval of budgets, and the approval of applications for subsidies and the evaluation of subsidy programmes. For example, the government regularly publishes calls to support energy management projects as well as for technical assistance with the application documentation through the State Programme for Support of Energy Savings and Use of Renewable Secondary Energy Sources (EFEKT). This includes a network of energy consultation and information centres which provide free advice to SMEs and municipalities to support the uptake of energy-saving measures and renewable energy sources (IEA, 2021[48]). The MPO is also responsible for the overall National Recovery and Resilience Plan, while the preparation and delivery of specific components of the plan are the responsibility of individual ministries (Ministry of Industry and Trade, n.d.[49]).

Housing investment is needed to increase supply

Housing is, on average, the largest expenditure for OECD households, and its share in household spending has risen over time (OECD, 2021[50]). In Czechia, the share of housing related items in total spending is higher than the OECD average (28% compared with 23%) (OECD, 2023[51]). House prices have doubled over the past six years (Figure 1.6) (OECD, 2023[18]). Average property price growth has exceeded 12% in recent years, significantly exceeding growth in average household income in the same period (Czech National Bank, 2022[52]). The high and growing demand for housing in Czech cities has not been met by a sufficient increase in housing supply. Construction activity has not kept up with its pre-2009 levels, and zoning and land-use planning do not steer housing development to where it is most needed. The shortage of qualified construction workers and the complexity of the building permit process pose further constraints to private sector housing supply (OECD, 2021[53]).

However, while the cost, quality and affordability of housing are major concerns in many Czech cities, there are regional differences. For instance, in 2016 only 30% of Prague residents considered it to be easy to find good housing at reasonable prices, compared to 65% of people in Ostrava. Similarly, the average price per square metre of an apartment in Prague was 30% higher than in Brno (Huerta Melchor and Gars, 2020[36]).

Figure 1.6. Housing prices have doubled over the past six years



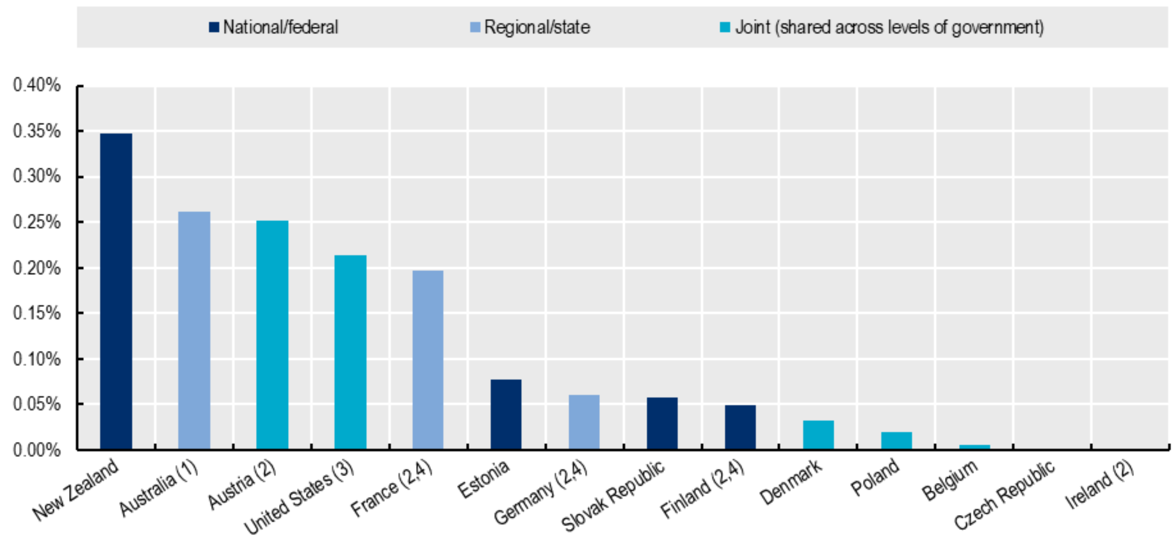
Source: (OECD, 2023[18]), OECD Economic Surveys: Czech Republic 2023, https://doi.org/10.1787/e392e937-en

According to a 2020 survey of municipalities, the main constraints for private developers were the costs of infrastructure provision, the lack of available land and the lack of infrastructure capacity. Municipalities tend to lack a local housing policy framework and inter-municipal co-ordination on housing policy remains limited (OECD, 2021[53]). Municipal rental stock is also very limited and there are no incentives for increasing rental or co-operative housing in order to increase the supply of affordable housing. Moreover, the integration of people fleeing from Ukraine could put further pressure on housing demand (European Commission, 2023[19]).

The private rental market offers few alternatives to ownership due to rising rents and relatively limited supply, while the social housing stock is too small to meet the demand from low-income and vulnerable households (OECD, 2021[53]). The housing stock was largely privatised in the 1990s and government expenditures on social housing are very low (Figure 1.7). The number of co-operatively owned dwellings declined from 700 000 in 1991 to 140 000 in 2021 and rentals declined from 1 465 000 to 890 000 (Czech Statistical Office, 2021[54]). The combined share of outright owners (58.9%) and those with mortgages (16.6%) is higher than the OECD averages (48.2% and 23.3%, respectively), while the combined share of private renters (17.8%) and subsidized renters (1.2%) is lower (16.8% and 6.7% respectively across the OECD) (OECD, 2023[55]; OECD, 2023[56]).

Figure 1.7. Public spending on supporting social rental housing is negligible in Czechia

Government spending as percentage of GDP in selected OECD countries, 2020 or latest year available



Note:
1. Data for Australia are based on the 2019/2020 fiscal year. GDP is adjusted to reflect this.
2. Data refer to 2020, with the exceptions of Austria and Ireland, where they refer to 2019; France, where they refer to 2018; and Finland and Germany, where they refer to 2017.
3. Data for the United States are based on the 2020/2021 fiscal year. GDP is adjusted to reflect this, based on OECD projections for 2021.
4. For Finland, France and Germany data are based on responses to previous QuASH rounds.
Source: (OECD, 2023[57]), OECD Questionnaire on Affordable and Social Housing (QuASH), 2019, 2021.

The government's 2022 Programme Statement highlights housing as a key issue and commits to supporting both owner-occupied and rental housing, including social housing. This includes accelerating the building process in co-ordination with local governments, as well as creating new tools for municipalities and new financial instruments for affordable housing construction. The Programme Statement also commits to supporting programmes for renovating buildings and replacing existing heating sources with greener options (Government of Czechia, 2022[37]). In 2023, a new Rental Housing Programme was announced with a total allocation of CZK 800 million (approximately EUR 33 million), of which CZK 500 million (approximately EUR 21 million) is intended for municipalities. Under the scheme, applicants can receive grants for up to 25% of eligible expenditure and loans for up to 90% of eligible expenditure. Support can be obtained, inter alia, for constructing apartment buildings containing rental flats, or for renovating unfit family or apartment buildings (State Investment Support Fund, n.d.[58]). The RRP also includes measures related to housing investment, including investing in the energy efficiency of housing stock and modernising district heating distribution networks.

Key housing sector institutions include the Ministry of Regional Development and the State Investment Support Fund (

Table 1.5). Effective co-ordination between the various public bodies will be key for providing affordable and quality housing (European Commission, 2021[28]).

Table 1.5. There are two key housing sector institutions in Czechia

Institution	Description
Ministry of Regional Development (Ministerstvo pro místní rozvoj, MMR)	The Ministry of Regional Development's areas of responsibility include regional policy, housing policy and legislation, spatial planning (including building and permitting rules), and public procurement (Ministry of Regional Development, n.d.[59]): • On regional policy, the Ministry of Regional Development prepares and implements conceptual documents and strategies and provides grants through supportive programmes. • The ministry is responsible for the legal and regulatory framework for housing, as well as the development and implementation of supportive housing instruments. • In the fields of spatial planning and building rules, the ministry is responsible for spatial development policy, maintaining planning activity records and overseeing the work of the Advisory Board for the Application of Building Regulations. It also assesses draft development principles developed by the regions, and generally supervises spatial planning matters. • Finally, the ministry is the National Coordination Authority for implementing programmes co-financed by EU funds.
State Investment Support Fund (Státní fond podpory investic, SFPI)	The State Investment Support Fund supports the development of housing in Czechia and the sustainable development of municipalities, cities, and regions. The main pillars of the SFPI's housing policy are ensuring the availability of adequate housing, helping create a stable environment for housing and supporting the improvement of housing quality. The SFPI therefore aims at regenerating the existing housing stock, reducing the energy consumption of housing, and the construction of housing (State Investment Support Fund, n.d.[60]). In 2022, SFPI revenues totalled CZK 1.9 billion (approximately EUR 75 million). This included CZK 650 million from the state budget (approximately EUR 27 million), CZK 350 million in EU funds (approximately EUR 15 million), and CZK 820 million (approximately EUR 35 million) in loan repayments and interest. The SFPI disbursed CZK 1.0 billion in grants (approximately EUR 42 million) and offered CZK 1.2 billion (approximately EUR 51 million) in loans over the same period (State Investment Support Fund, 2023[61]). The governing body of the SFPI is the Fund Committee, chaired by the Minister for Regional Development and made up of representatives from the Ministry of Regional Development, the Ministry of Finance, the Ministry of Industry and Trade and independent experts. The Fund Committee is responsible for developing the fund's draft. A second body, the fund's Supervisory Board, is appointed by the Chamber of Deputies and is responsible for approving the fund's financial statements and overseeing the fund's activities (Government of Czechia, 2020[62]).

Cross-sectoral institutions are also important for infrastructure governance

This section describes a number of other institutions that play an important role in infrastructure governance.

Ministry of Finance

The Ministry of Finance (Ministerstvo finance) is responsible for fiscal policy, macroeconomic and fiscal forecasts, financial market regulation and preparing the state budget (approved annually) and the budgets for the state funds. The main regulatory framework and rules for these competences are anchored in the Act No.218/2000 Coll., on Budget Rules, which governs the preparation of the mid-term state budget outlook, financial control mechanisms, and the framework for managing the state treasury and state debt.

The ministry has further responsibilities for financial management, financial control, reviewing the management of local self-government units and decisions on co-financing from EU funds. As regards infrastructure governance, the role of the ministry is primarily limited to the budgeting process and reviewing individual projects (Ministry of Finance, n.d.[63]).

CzechInvest

CzechInvest's activities include attracting high value-added investment into Czechia, supporting municipalities in attracting investors, and supporting small and medium enterprises. CzechInvest's 2022 expenditures totalled CZK 250 million (approximately EUR 10.5 million), funded primarily by the Ministry of Industry and Trade and European Funds (CzechInvest, 2023[64]).

CzechInvest has 13 regional offices whose activities include working with municipalities or regions to identify investment needs and provide support in areas such as brownfield regeneration. For example, the industrial zone support programme "Smart Parks for the Future" provides for the development of existing industrial zones and improving their infrastructure, including measures to reduce negative climate impacts and regenerate brownfield sites. CzechInvest also operates a database of business real estate in Czechia, enabling it to offer suitable land, offices and business parks directly to investors (CzechInvest, n.d.[65]).

National Development Bank

The National Development Bank (Národní rozvojová banka, NRB) is a specialised state-owned banking institution. It is the main provider of financial instruments funded from public and European sources, as well as from its own resources and in co-operation with private capital. Its shareholder, Czechia, is represented by the Ministry of Industry and Trade, the Ministry of Regional Development and the Ministry of Finance. The NRB has primarily focused on providing support to SMEs through bank guarantees and preferential loans. The bank has also introduced programmes for financing housing development and municipal infrastructure and served as a manager of infrastructure loans from the European Investment Bank. The bank has assumed the role of manager of EU funds' financial instruments.

Its activities are anchored in three main pillars:

1. Financing the investment and operational needs of Czech enterprises through guarantees, loans, equity and quasi-equity instruments.
2. Supporting specific segments of the Czech economy in co-operation with ministries, regions or municipalities. This includes programmes for enterprises as well as loans for municipalities.
3. Project financing of public infrastructure, particularly transport, social, energy, environmental and digital infrastructure. This pillar is covered by the NRB (loans, subordinated loans, guarantees) and its two subsidiary companies: the National Development Investments (equity or mezzanine financing) and the National Development Fund (mezzanine and junior financing, PPP financing).

The NRB also offers advisory services for clients. Currently, advisory services are available for social enterprises, energy efficiency and energy performance contracting projects, and project financing of public infrastructure (National Development Bank, n.d.[66]).

Ministry of the Environment

The Ministry of the Environment (Ministerstvo životního prostředí, MŽP) co-ordinates the activities of ministries and other central state administrative authorities in environmental matters. It oversees strategy implementation on climate change and produces annual evaluation reports on the state of the environment in Czechia.

The ministry is responsible for developing the Czech State Environmental Policy, which outlines overarching environmental priorities, objectives and strategies, as well as the Climate Protection Policy, which sets emission reduction targets and defines climate protection objectives (Ministry of the Environment, n.d.[67]). The MŽP oversees the implementation of the Strategic Framework Czechia 2030, the overarching strategy for sustainable development in Czechia (OECD, 2023[4]), and ensures alignment with other strategies crucial for climate change, particularly the State Energy Policy and the National Energy and Climate Plan. The MŽP is also the administrator of the State Environmental Fund and appoints the fund's board (State Environmental Fund, n.d.[68]).

State Environmental Fund

The State Environmental Fund (Státní fond životního prostředí, SFŽP) provides direct financial support through subsidies, and indirect financial support through loans or contributions towards interest on loans, to environmentally focused projects (e.g. to improve water quality, use of renewable energy sources, buildings' energy performance). The SFŽP is also responsible for administering EU funds, funds from the state budget, and revenues from fees collected from polluters (State Environmental Fund, n.d.[69]). The fund has a nationwide network of consultants and project managers located in 13 offices in Czechia's major regional cities (State Environmental Fund, n.d.[70]).

In 2022, SFŽP revenues totalled CZK 47.5 billion (approximately EUR 2.0 billion; see The state funds most involved in infrastructure investment – the State Fund for Transport Infrastructure, the State Environmental Fund and the State Investment Support Fund – were three of the four largest funds by revenue and expenditure in 2022.

Figure 1.1), including CZK 2.2 billion (approximately EUR 93 million) from environmental charges (for pollution and resource use) and CZK 43.3 billion (approximately EUR 1.8 billion) from EU funds and the state budget. Expenditures totalled over CZK 10 billion, including CZK 10.2 billion (approximately EUR 430 million) in grants and CZK 66 million (approximately EUR 3 million) in loans from the fund budget. The fund also administered 10.3 billion (approximately EUR 430 million) in project funding on behalf of the Ministry of the Environment (State Environmental Fund, 2023[71]).

The Minister of the Environment appoints the SFŽP board, which assesses major matters related to the development and use of the fund, as well as the annual budget. As of 2022, the board included members of the Chamber of Deputies and the Senate, representatives of the Ministries of the Environment, Finance, Industry and Trade and Regional Development, representatives from regions and municipalities, and civil society organisations (State Environmental Fund, n.d.[72]).

Notes

1 Act No. 2/1969 Coll., on Establishment of Ministries and Other Central Authorities of the State Administration of Czechia (“the Competency Law”).

2 Note that this report refers throughout to the 2021 version of the Spatial Development Policy. Subsequent to the drafting of the report, a new version of the Spatial Development Policy came into effect on March 1st, 2024

3 https://www.mmr.cz/cs/ministerstvo/regionalni-rozvoj/regionalni-politika/koncepce-a-strategie/rozvoj-obci

4 Note that this comparison takes the ERDF and Cohesion Fund as proxies for public investment, though some ERDF expenditures finance businesses.

5 The NUTS 2 regions of Moravskoslezko, Střední Morava, Střední Čechy Jihovýchod, Severovýchod, and Jihozápad.

6 In Czechia, motorways and Class I roads are owned by the state while Class II and Class III roads are owned by the regions. Local roads are owned by municipalities.

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