

# Following the Money: Hungary

## What is the Just Transition Fund going to finance?



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This briefing provides an overview of the just transition envisioned in Hungary’s Territorial Just Transition Plan for the three regions designated to receive money from the Just Transition Fund: Baranya, Heves, and Borsod-Abaúj-Zemplén (BAZ). It scrutinises and evaluates the economic, environmental and social aspects of the plan, and shows how the investments are to be divided among the respective policies for each of these areas. Unlike our previous briefings, this time we will not only focus on the content of the Territorial Just Transition Plan itself, but also on how the objectives described in the plan translate into the allocation of funds. In short, we follow the money.

The briefing consists of three sections. Following a brief introduction to the Just Transition Mechanism, the second section provides an overview of the methodology underpinning our analysis. The third section identifies what Hungary actually plans to do to alleviate the impacts of the transition to carbon neutrality and explores the allocation of funds for specific types of projects.

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## Introduction to the Just Transition Mechanism

The Just Transition Mechanism is a regional development programme that was announced by the European Commission in January 2020. Its purpose is to provide targeted support to regions in the EU that are likely to be disproportionately impacted by the transition to a carbon neutral economy under the European Green Deal.

The mechanism rests on three separate pillars. The first is the Just Transition Fund, the second is a dedicated just transition scheme under the InvestEU programme, and the third is a new public sector loan facility financed with EU grants and loans from the European Investment Bank. The latter two are discussed in more detail in our briefing on the second and third pillars of the Just Transition Mechanism.<sup>1</sup> Overall, the targeted support provided by the Just Transition Mechanism has led to the mobilisation of around EUR 55 billion in private and public investments.<sup>2</sup>

To be eligible for funding under the pillars of the Just Transition Mechanism, EU Member States were required to negotiate Territorial Just Transition Plans for regions identified as likely to suffer negative socio-economic impacts from the transition to a carbon-neutral economy. This process lasted from the launch of the Just Transition Fund Regulation in June 2021 until the European Commission's approval of the plans, which had to be completed by 31 December 2022. Of the eight countries covered by CEE Bankwatch Network – Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania and Slovakia – seven have had their Territorial Just Transition Plans approved.<sup>3</sup> Only Bulgaria continues to work on its plans owing to the ongoing political instability in the country.

Hungary has prepared three Territorial Just Transition Plans<sup>4</sup> covering the regions of Baranya, Heves and Borsod–Abaúj–Zemplén. Developed as an annex to the Environment and Energy Efficiency Plus Operational Programme Plus (KEHOP Plusz), the plans were approved in December 2022. The planned allocation from the Just Transition Fund consists of a lump sum of EUR 250.6 million for all three regions along with EUR 10.4 million in technical assistance.

All countries who have had their Territorial Just Transition Plans approved have now entered the implementation phase, which means that potential investors are able to apply for funding under all three mechanisms, in accordance with what was established as funding priorities in the approved plans. In most countries, including Hungary, European funds monitoring committees have been established and project implementation has been initiated.

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<sup>1</sup> CEE Bankwatch Network, [The Second and Third Pillars of the Just Transition Mechanism](#), CEE Bankwatch Network, 13 March 2023.

<sup>2</sup> European Commission, [The Just Transition Mechanism: making sure no one is left behind](#), European Commission, accessed 9 March 2023.

<sup>3</sup> European Commission, [Just Transition Platform](#), European Commission, accessed 9 March 2023.

<sup>4</sup> Ministry for Innovation and Technology of Hungary, [Territorial Just Transition Plans](#), Ministry for Innovation and Technology of Hungary, 22 December 2022.

## Methodology<sup>5</sup>

The plan for Hungary was carefully examined and assessed in a four-step process. First, we delved into the primary intended policy outcomes. This involved identifying the key sectors targeted in the plan, summarising estimated job losses and job creation, and analysing the proposed reduction in carbon emissions. We also scrutinised the aspirations related to the phase-out of fossil fuels and the promotion of renewable energy.

In the second step, we closely evaluated the expected impact of the plan. This encompassed a comprehensive analysis of six critical elements: the economic, environmental, employment, and social implications of the plan, as well as potential areas for growth and retraining requirements.

In the third step, we categorised the most significant economic, social and environmental policies in a table format. Economic policies were defined as those directly aimed at the private sector or the improvement of employment conditions. Employment policies were also grouped under economic policies due to their primary benefits for private companies or individuals. Economic policies encompass initiatives such as investments in small and medium-sized enterprises (SMEs), workforce retraining or upskilling, and investments in large businesses. Environmental policies were defined as those that aim to enhance the environment, including increasing renewable energy production and brownfield decontamination. Social policies were defined as those intended to improve the communal and public conditions of regions and specifically benefit large segments of the population. These policies cover investments in social and healthcare, education (excluding retraining or upskilling) and public research organisations.

Economic policies were further categorised into those related to employment, retraining and upskilling, SMEs, and large corporations. Social policies were divided into areas such as social issues, care for children and older people, public sector research and development, education, and small-scale community initiatives. Environmental policies were categorised based on their relationship to energy and land development.

In the fourth and final step, we utilised the Cohesion Open Data Platform<sup>6</sup> to investigate the allocation of funds to specific policies. We calculated the percentage of the total budget allocated within the Just Transition Fund to each policy. It should be noted that the just transition regions will also be receiving money from other EU funds, including the second and third pillars of the Just Transition Mechanism, the European Social Fund, the Modernisation Fund, and the cohesion policy funds, as well as national funds. However, it was not possible to include an analysis of all these additional allocations in this brief.

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<sup>5</sup> Our methodology has been developed in collaboration with Michiel Stapper, Assistant Professor at Tilburg Law School, drawing from his previous work. See: Michiel Stapper, [The Road to a Just Transition – A Comparative Analysis of Territorial Just Transition Plans](#), *Foundation for European Progressive Studies*, April 2022.

<sup>6</sup> European Commission, [Cohesion Open Data Platform](#), *European Commission*, accessed 9 September 2023.

## Following the money: the Just Transition Fund for Hungary

### Planned policy implementation outcomes

**Table 1.** Planned outcomes of the just transition process in Hungary based on the Territorial Just Transition Plan.<sup>7</sup>

Regions	Sectors targeted	Estimated job losses	Estimated new jobs	GHG emission reduction	Phase out of fossil fuels	Renewable energy percentage in 2030
Baranya, Borsod-Abaúj-Zemplén, Heves	Coal: Borsod-Abaúj-Zemplén (BAZ), Heves and Cement: Baranya	6,300	817	No indicator	2030 coal phase-out	21% renewable target in the NECP (adopted in Jan 2020), 29% target in the updated NECP (submitted to the European Commission in early Sept 2023)

The Hungarian Territorial Just Transition Plans for BAZ and Heves focus on mitigating the negative economic and social effects of the lignite phase-out. In turn, the Plan for Baranya is centred around reducing emissions from the cement industry. The plan sets a target to phase out coal from energy production by 2030. The Territorial Just Transition Plans for Hungary do not have an assessment of the greenhouse gas emission reduction. When the TJTPs were adopted, the planned percentage of renewable energy in their energy mix by 2030 was 21 per cent but now the national renewables 2030 target was increased to 29 per cent in the updated draft National Energy and Climate Plan.

Without additional policy measures, phasing out coal is expected to have a significant negative impact on jobs in the region, with an estimated 6,300 direct and another 7,000 indirect jobs lost.

The Hungarian Territorial Just Transition Plans clearly state that the lignite-fired units of the Mátra power plant will be phased out by 2025 and related lignite mining in BAZ and Heves will be also phased out. The key transition steps seem to be centred around ‘green economic development’, with economic policies taking more than 60 per cent of the Just Transition Fund: investments, incubators, as well as research, development and innovation purposes for SMEs but also for large corporations. However, as the large companies have many advantages (in capacities, resources) over SMEs, it is likely that large companies will determine and dominate these projects, and aggregate suppliers and other SMEs to consortium partners or subcontractors. Energy efficiency and demonstration projects (including a smaller portion to energy communities) for SMEs and for households will also be significant, but they need to be targeted well, as the

<sup>7</sup> Developed by CEE Bankwatch Network based on a methodology by Michiel Stapper and data contained in Hungary’s Territorial Just Transition Plan.

allocations are moderate. Land rehabilitation in BAZ and Heves will receive a large bulk (22 per cent) of the funds, while the programme details are not very clear.

Nevertheless, the implementation of the three Territorial Just Transition Plans and the whole just transition in Hungary are under imminent danger: in October 2023, a procedure was opened for a full review of the single environmental permit for the production of electricity at the Mátra power plant, to extend the permit until the end of 2029. A new government resolution in mid-November mandated that the phase-out of the lignite-firing units would only occur once a combined-cycle gas turbine (CCGT) power plant with a maximum installed capacity of 650 megawatts (MW) is built. The plant is projected to be completed by mid-2027 at the earliest. As a result, the Hungarian government will need to modify the three Territorial Just Transition Plans and submit its proposed Operational Programme amendments to the European Commission for adoption. This means that the implementation and financing of the just transition under all three pillars of the Just Transition Mechanism may be jeopardised or at least severely delayed.

### **Predicted economic, employment, environmental and social impacts of the just transition in Hungary**

The coal phase-out process will have a significant impact on the local economies in BAZ and Heves counties. The aim of Hungary, through the Just Transition Fund, is to ensure the future of the people employed in connection with the Mátra lignite/biomass-fired power plant. At the same time, Hungary needs to diversify the local economies and meet the heating needs of lignite-fired households in an environmentally friendly way after the end of lignite production. The largest industrial greenhouse gas emitting sector in Hungary, the cement industry, has a large presence in Baranya. To achieve the decarbonisation target, efficiency investments and technological improvements are needed in the case of Baranya, mainly in cement production. The predominance of the manufacturing and production sectors in the local economy may pose a risk to the implementation of the transition, as it is mainly through its supply value chains that the private business sector is involved in the process. Reducing the weight of manufacturing by strengthening other sectors is therefore key to reducing these economic risks.

As the last operating coal mines and the last coal-fired power plant in the country are located in BAZ and Heves counties, lignite mining and lignite-based electricity generation are exclusively present in these counties as the main employment generating sector. Direct employees in lignite mines and lignite-based electricity production are on average 49 years old. Many are low skill workers with limited opportunities on the general labour market. To ensure the fairness of the transition, the planned restructuring must take into account the labour market changes (new skill needs) associated with the transition of the sector, and it is of particular importance to support the innovation-driven economic diversification of SME actors linked to the industries concerned.

One of the more significant social impacts felt in BAZ, Baranya and Heves counties are the high rates of energy poverty. Most of the energy-poor households that use the cheapest and most environmentally and human health-damaging lignite for household heating are located in BAZ and Heves.

Lignite mining has a strong negative impact on the quality of the groundwater in BAZ and Heves. The Mátra power plant in Heves along with its lignite mines in BAZ are the largest carbon dioxide (CO<sub>2</sub>) emitters in the country, accounting for nearly 50 per cent of the power sector's CO<sub>2</sub> emissions and nearly 10 per cent of the total CO<sub>2</sub> emissions of Hungary. The power plant, besides the tens of thousands of households in the area



using also lignite for heating, also contribute significantly to the concentration of other air pollutants, representing 36.2 per cent of the total sulphur dioxide, 13.71 per cent of the total mercury, and 4.48 per cent of the total nitrogen dioxide emissions in Hungary.

## Where will the money go?

**Table 2.** Planned allocation of funds for Hungary.<sup>8</sup>

			<b>Amount (EUR)</b>	<b>Percentage (approximates)</b>	
<b>Economic policies</b>	Employment		0	0%	
	Retraining/upskilling		48 008 155	19.1%	
	SMEs (≈27%)	Investments in SMEs		38 794 469	15.5%
		Incubators		28 916 456	11.5%
		SMEs involved in research, development and innovation		0	0%
	Large corporations (≈16.4%)	Investments in large corporations		0	0%
		Research, development and innovation in large corporations		41 219 123	16.4%
<b>TOTAL</b>			<b>156 938 203</b>	<b>62.6%</b>	
<b>Environmental policies</b>	Energy (≈14.8%)	Investments in renewable energy sources	0	0%	
		Infrastructure of renewable energy sources	6 546 567	2.6%	
		Energy communities	0	0%	
		Energy efficiency and retrofitting	30 632 005	12.2%	
	Land development and other environmental projects (≈22.5%)	Decontamination of land		56 494 446	22.5%
		Waste		0	0%
		Mobility		0	0%
		Climate adaptation, including water management projects		0	0%

<sup>8</sup> Developed by CEE Bankwatch Network based on a methodology by Michiel Stapper and data on the Just Transition Fund allocation for the 2021–2027 budgeting period available from the Cohesion Open Data Platform. See: European Commission, [Just Transition Fund \(JTF\)](#), *Cohesion Open Data Platform*, accessed 29 November 2023; see also: Annex 1.

<b>TOTAL</b>			<b>93 673 018</b>	<b>37.3%</b>
<b>Social policies</b>	Social issues		0	0%
	Care for children and older people		0	0%
	Research, development and innovation in the public sector		0	0%
	Education (not retraining or upskilling)		0	0%
	Small-scale community initiatives		0	0%
<b>TOTAL</b>			<b>0</b>	<b>0%</b>
<b>SUM TOTAL</b>			<b>250 611 221</b>	

The sum total allocated to Hungary from the Just Transition Fund currently amounts to roughly EUR 250 million, the 17<sup>th</sup> highest allocation in the EU. In addition, EUR 10.4 million is designated for technical assistance.

When looking at the Just Transition Fund allocation for Hungary, in comparison to the other six studied countries, we see the biggest focus on economic policies (62 per cent); some allocation for environmental policies (37 per cent) and zero for social policies. Hungary has a significant allocation for reskilling, SMEs and incubators. However, in comparison to other countries, the allocation for large corporations (16 per cent) is quite substantial. With regard to energy policy, Hungary has plans to invest a large amount in land decontamination (22 per cent) with a smaller focus on energy efficiency (12 per cent) and renewable energy infrastructure (2 per cent). On the other hand, no funds have been allocated to social policies under the assumption that other European funds, such as various grants and loans from the Recovery and Resilience Facility and certain operational programmes, already focus on these aspects.

As retraining and upskilling have quite a high allocation, Hungary plans to use the money for projects that ensure the provision of complex labour market services for workers at risk of redundancy or who have already lost their jobs; organisation of training and retraining, support for job change and support for entrepreneurship and business start-ups. This will be ensured through activities like support for the acquisition of new skills, focusing on shortage occupations, emerging green sectors, and wage subsidies. Hungary will retrain workers for new industries and create individual development plans, alongside learning and training programmes. At the same time, soft services are needed to support employment and transition, such as counselling and mentoring. Entrepreneurship should be supported through complex services including business plan development, digital skills development; advice, accounting, mentoring, and combined financial support for asset acquisition.

Support for SMEs will focus on the diversification of the green economy and the creation of a circular economy; through the purchase of productive assets related to green economic activities, infrastructure



investments, and consultancy. Hungary will focus on solar energy, battery production, the complex recycling of energy storage devices, the creation of an energy efficient industry value chain, biomethane production, and circular economy activities related to the chemical, mechanical engineering and metal processing industries. Investments by SMEs are needed in tangible or intangible assets in the field of circular solutions to produce goods or services. In addition, Hungary will be supporting investments in technology change and energy efficiency improvements that enable SMEs to reduce greenhouse gas emissions. This will be achieved through investments to improve energy efficiency that result in significant greenhouse gas emission savings for the company, reduce the energy and emission intensity of production, and accelerate the transition away from fossil energy. At the same time, renewable energy production systems and renewable energy storage systems should be installed.

Hungary also plans to create business incubation centres for existing and start-up SMEs that are viable in the green economy alongside business mentoring programmes. In practice, they will be looking for projects focused on the development of an entrepreneurial incubation programme, awareness raising campaigns developing knowledge for international market entry, a green awareness mentoring programme, networking, business progress and ecosystem support.

In order to contribute to economic diversification, Hungary will also fund projects within large corporations (inter alia, in consortia) on such topics as infrastructure investments, consultancy, solar energy, battery production, complex recycling of energy storage devices, creation of an energy efficient industry value chain, biomethane production, and circular economy activities related to the chemical, mechanical engineering and metal processing industries.

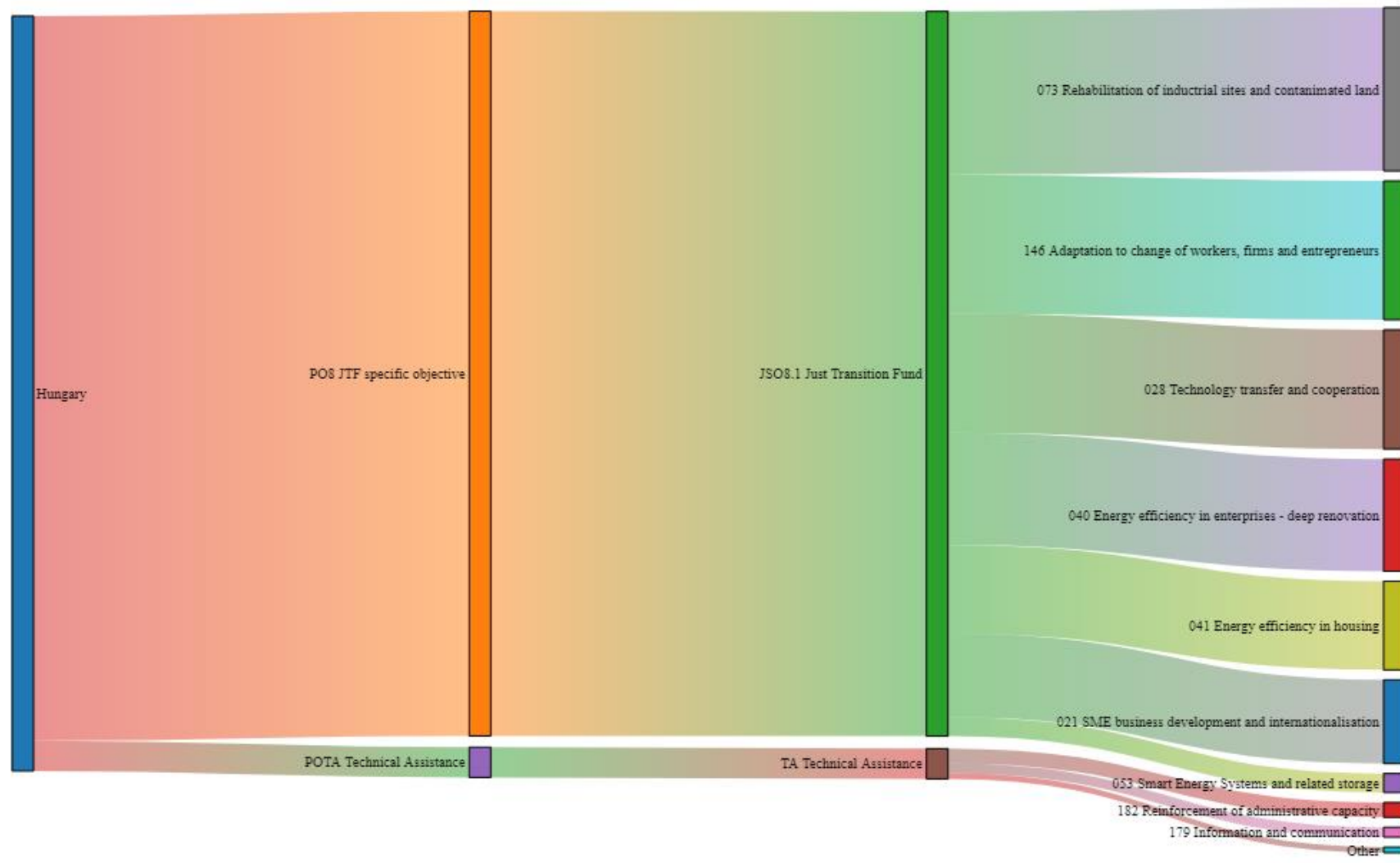
Research, development and innovation will benefit both SMEs and large corporations. Mainly, Hungary will be supporting research and development and innovation-based collaborations between education and research centres in the counties and primarily SMEs, in order to promote research and development activities with green economy innovation potential and activities that increase efficiency and thus reduce greenhouse gas emissions.

As the allocation for energy infrastructure is quite small, its aim will be to develop projects related to innovative energy storage systems through developments for the storage of heat and hydrogen generated by electricity from renewable sources and technologies, power plant flexibility, and the installation of batteries in electric charging posts. Local renewable energy communities are planned to be supported within the framework of energy efficiency for housing and demonstration projects.

BAZ and Heves counties will also get support for reutilisation projects related to the recultivation of mines that are being closed and the reutilisation of industrial sites for alternative uses. This will be done by a consortium of municipalities and companies involved in the closure of the lignite mine linked to the Mátra power plant. Projects will focus on utilising the area for new purposes after coal mining, such as for green-blue infrastructure elements, nature-based solutions, facilities for the preservation of mining culture, and health service houses. In addition to preparatory and engineering works, the development of the land will require careful planning and co-ordination. It is highly probable that the high allocation for land restoration (22 per cent) will be in conflict with the 'polluter pays' principle, which states that the polluter, that is, the coal operator, should restore damaged land.

## Annex 1

**Table 3.** Just Transition Fund allocation for Hungary.



Source: European Commission, [Just Transition Fund \(JTF\)](#), *Cohesion Open Data Platform*, accessed 29 November 2023.