

Barriers and project criteria for the Upper Nitra region transition process

Mining is coming to an end, and with respect for the past, we are looking for new opportunities for prosperity in the region.

This study serves as an invitation and starting point for further discussions and collaboration on just transition in the Upper Nitra region of Slovakia. A just transformation means that while transitioning from coal, the projects of big corporations will not be favored, and smaller companies, entrepreneurs, and other stakeholders will also get the chance to participate in the region's transformation.



Photo credit: Michal Burza

The study is mapping barriers to the development of small enterprises in the region and outlines opinions of the local working groups on criteria for the prioritisation of transformation projects.

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1. What kind of private interests influence the decision-making processes of the Slovak state?

Mining industry a priori assumes that 'coal is finite'

A just transformation means, among others, that while transitioning away from coal, the projects of one private company will not be favored at the expense of smaller entrepreneurs and stakeholders.

It seems that, in the manner in which the process functions in Slovakia, it is sometimes overlooked what is the main logic behind the region's transformation - ending coal-reliance. We are convinced that the funding of projects under The Action Plan for the Upper Nitra Region Transformation should be conditional on its purpose - **to bring the mining and combustion of coal to an end and to gradually prepare the mining region for life after coal**. Based on this fact, while transitioning away from coal, the companies which are in the coal mining business without a clear exit strategy and concrete commitments for greenhouse gases emissions' reduction, should not be supported.

In spite of this, in the proposed document from December 2018, concerning the reduction of subsidies for electricity production from brown coal by 2023 (1), there were already specific projects of the company Hornonitrianske bane Prievidza, a.s. (hereinafter HBP) nominated to be supported. Public support in the region allowed us to negotiate with the Office of the Deputy Prime Minister for Investments and Informatisation, and following the



comments of several parties, the projects were omitted from the document, with the note that this issue will be addressed in The Action Plan for the Upper Nitra Region Transformation.

As part of the creation of The Action Plan, indicative project proposals are being collected again. The aim should be to identify the priorities that can be supported during this programming period and to cover the long-term needs in order to succeed in the transformation of the Upper Nitra region.

The mining company has an obvious advantage. It is a big player and in this industry it is assumed from the beginning that "coal is finite". Dismantling mines is an a priori expectation and an integral part of mining activities. Therefore, HBP was already in a position to develop

projects and plans related to the winding up of mining and related operations. The company **asks for 94 million euros** for the revitalisation of the underground and the surface, despite the fact, they have been creating reserves for this. According to the HBP 2017 annual report the reserves are in the amount of the estimate to the costs of restoration of the areas affected by the mining. On the one hand, there is a request for funding to facilitate the closure of mines which are unable to compete; on the other hand, a private mining company is planning further mining activities after 2023 in the 12th coalfield in Novaky town. Nor should the state or the EU pay for the rehabilitation of mining territories and for the damage caused over the years by the mining industry, which has generated private profits.

On the contrary, we demand that the **"polluter pays" principle** is respected according to European environmental legislation. The actor provoking environmental damage is responsible for it and **must** take the necessary precautionary or corrective actions and **bear all the related costs** (2).

The most recent study by the European Commission states that one of the main factors for planning future interventions is the **revitalisation of underground constructions and post-mining surfaces**, which - in line with legislation currently in force - must respect the basic environmental principle that the "polluter pays". However, the **scope and complexity of the mining impacts** on the landscape and the environment **will require external assistance** (3).

According to the approved Enviro-strategy (4), Slovakia should by 2030 “make all efforts to eliminate environmental burdens with highest priority and the safe **disposal of environmental damage** should be **fully funded by the originators**. The geological survey of the field shall continue via effective cooperation with local governments and citizens. Health protection from the risks of land contamination and nature conservation will be considered a priority.”

The status of a private company in the process of transformation

The main idea of the Upper Nitra region's transformation is the development of a strategy for the period after the end of coal. The HBP company undoubtedly has a strong position in this process, even though it has not yet announced the end date for coal mining. Evidence of this strong position is especially the fact that for the meeting of the European Commission, government, public administration and the private sector on the subject of the region's transformation held on 5th of February 2018, it was exclusively the HBP company and its partners who were invited. Other stakeholders remained outside the closed door (5).

HBP's connections to public institutions are also alarming. Slovak media reported that the company is paying a person from the Main Mining Office for services (6), while paradoxically, this institution is the main supervisory body of HBP. It is also worth mentioning the

potential conflict of interest inside the Slovak Electricity Transmission System (hereinafter SETS), with the chairman of the HBP supervisory board being also a member of the SETS supervisory board. The Ministry of Economy of the Slovak Republic committed to providing subsidies to the Nováky power plant until 2023, for the safety of the electrical system, which SETS is in charge of (7). The underlying data are not available to the public so they could be objectively assessed.

Public interest and the role of the state

It is in the public interest to direct financial support for the region's transformation for the right purposes.

With regard to the general economic interest, the government has in the past approved long-term subsidies for coal mining in the Upper Nitra region through electricity bills paid by each household in Slovakia. However, the situation is changing and the Upper Nitra region is preparing for the process of transitioning the mining region away from coal.

On the other hand, the company, which has generated private profits for decades and while being subsidised by the state, seeks additional **funding for closure and restoration**. In this context, the state should ensure and manage the support of projects in such a way that the polluter takes responsibility for the environmental damage it has caused.

Also, in light of the general principles of state aid provision, it is in the public interest for the state to **ensure** that HBP has a **duty** firstly to utilise its own reserves as a **pre-condition for receiving further grants**.

Environmental burdens go hand in hand with health problems. Based on the latest official data on the pollution of coal-fired power plants from 2016 (8), it was confirmed that **coal companies bear a significant responsibility for health impacts**. The report reveals the real costs of pollution from coal in Europe and who pays for it: these are not the coal companies but people. **In this context, the state has an obligation** to be accountable to its citizens by **committing itself to an ambitious and just transition away from coal** as the only way which takes into account the consequences of coal companies' operations.

We consider the protection of human health and a clean and safe environment as an important public interest that should be taken into account by the relevant state authorities as one of the transformation priorities. According to public opinion polls, Slovaks think coal use should decline because it is polluting and negatively impacts human health (9). At the same time, Slovaks think the polluter should pay.

The Antimonopoly Office of the Slovak Republic stated that the **price of electricity produced from domestic coal has been, over the last years, more than double the market price** and therefore not profitable on the market without subsidising mechanisms (10).

For these reasons, the projects of HBP should be assessed very sensitively. Public finances cannot be misspent for the sake of sectors without a perspective, but should, on the contrary, **protect the social situation of mining families**, thereby avoiding the negative consequences of the end of mining activity on the employees themselves.

2. What barriers do small entrepreneurs face?

Inconsistency of authorities and lawlessness

After 11 years of work for HBP, a young resident of Handlova town had decided in his thirties to give up mining. He started to work in the private sector, in the fields of engineering and construction. After another ten years, he was already establishing his own company, active in construction and later in forestry. During its best times the company employed between 35 to 40 employees until the crisis hit and the number was reduced to the current five employees. The Handlova town resident then became a self-employed farmer, despite the fact that the area of Handlova was never focused on small scale farming: "Everybody was always working in the mines. Those who were not miners did not exist."

Agricultural land around Handlova town is administrated by the Slovak Land Fund (hereinafter SLF), which leases it. There are also two old orchards that have been cultivated under the previous regime. Their altitude of about 500 meters creates generous conditions particularly for apples, cherries, amarelle, but also strawberries and currents.

In the early 1990s, an institution of the previous regime called Handlova state farms cooperative was transformed into a joint-stock company, which has land under lease from SLF in the vicinity of Handlova town.

Approximately six years ago, the farmer from Handlova agreed with the joint-stock company management a medium-term lease of the trees in one of the orchards mentioned above, to provide them an adequate care. It is an old orchard full of trees which are no longer fully productive, but at the same time these are old, traditional, and nowadays quite unique tree varieties.

The farmer wanted to clean the orchard of wild trees and shrubs but the new leadership of the joint-stock company did not agree. There were several meetings of the parties but without a final agreement, which led to a dispute. The farmer would like to clean the orchard and eventually prepare it for livestock breeding in the future. However, he cannot, despite the fact that the company which leases the land from SLF does not care about it. This is contrary to the Act on the Protection and Use of Agricultural Land (no. 220/2004), according to which the orchard should be utilised for the activities of proper farmer.

Until today, there is no agreement about cleaning the old orchards and utilising the land. During the last three years, the farmer is filing on yearly basis a proposition to the SLF to lease the land to him directly as well as a suggestion to investigate the violation of the law which imposes an obligation of proper land cultivation. Despite all the signs that the land in the orchards is not cultivated, the Regional Office of SLF has repeatedly stated that there is no sign of non-management of the orchard lands. This is, according to the farmer, contradictory to reality.

Having used the possibilities of personal meetings and official communication with the regional and central authorities and in light of the long-term failure of authorities to properly resolve the situation, the farmer will continue to fight against the mismanagement of state land and he is considering a complaint against the regional SLF officials.

This active farmer assessed the situation in this way:

"The paradox is that the one who has the land is not using it and those who would like to use it do not have it. In Handlova town there are about 1,800 hectares of land which provides living to approx. 30 people. In neighboring Austria, this standard is quite different: four people can use a family farm of 20 hectares. The state should protect those who are farming or have a real interest in this activity. Giving large subsidies to a few people is for sure more effective as regards the administrative burden, but helping by smaller amounts and to more people is certainly more beneficial for the region. I do not want to give up... 95% of people would have let this go already. The state is clearly failing because I have the desire to roll up my sleeves and work hard, but it is being denied to me."

Priority should be given to real business intentions instead of leasing the land just to gain subsidies.

[The story of a small rural family bakery, which, at times of its greatest glory, supplied much of the region](#)

In 1991, three siblings began to manually build a bread baking furnace from clay in a village near the Prievidza town. In less than two years, the first bread was baked in it. When the father of the family returned to Slovakia after five years since the bakery was established, he and his wife became part of the family business as well.

When the original clay furnace broke down, the rural bakers approached professionals to build a new furnace (a so-called steamer), which used coal and served for another eight years. The new furnace enabled the production of new products. In addition to bread, the bakery also began to make fine and sweet pastry. All the bakery products were made from own recipes through creative experimenting. The bakery supplied about 30 shops in the Prievidza district and employed 12 people.

After gasification of the village, the bakery bought new ovens, which were cheaper to operate. Even the relationships with neighbors gradually improved, as some of them were

previously complaining about the coal smoke. The bakery expanded its production and opened several more small bakery shops. It was a period of prosperity, business without debt and good customer relations, which lasted for approx. five years. With 20 employees, the time has come to change the legal form of the business from a self-employed to limited liability company.

The initial joy did not last long because, with the new status came new unexpected costs, such as the salaries for merchandisers, percentage bonuses from successful sales, compulsory freezing of prices for the whole year, etc. This was the beginning of the end of the rural bakery. Indebtedness to the tax office started to grow compiled by new debts to social security and health insurance institutions as well as a few unpaid invoices of suppliers.

There were two other smaller gas furnaces purchased (one of them can be used, in addition to fine pastry, for pork meat baking, which became a side business for weekends). However, this was still not enough, as the competition in the form of small bakeries that were opening up their own shops gradually increased. The number of employees halved.

In 2011, the bakery, in co-operation with an external company, submitted a project proposal to raise money from EU funds - unsuccessfully. The small company needed to purchase new furnaces and machines to reduce the level of manual production. The controller regularly sighs in the bakery that "empress Mary Theresa has for sure produced on these machines". As the debts to state institutions became unbearable, the bakery decided to repay everything from a loan. There was no bank willing to lend funds to the indebted company even with property was offered as collateral. Thus the bakery borrowed the necessary money from a non-bank company, which subsequently sold this claim to another firm which eventually put the bakery on auction.

Despite all the troubles, the bakery continues to bake, although according to the owner's words, "the business is dead". It is still a family business, where two sisters, the husband of one of them, two children and sporadically a brother work for a few hours a day. Bakery products are still sold in the village where the bakery is located, it still has one own small shop in Prievidza and a few permanent buyers. Due to the competition, the bakery has changed its assortment and one of its main products are, for example, healthy crackers.

The family members aged together with the bakery and the traditional baking during nights was changed to daily baking. It also affected the children who, while seeing their parents' struggles, are not interested to continue in the family business and bakery tradition, even though they sometimes help.

Looking to the future, the bakery owners still wants to bake, sustain hand-made production, continue in the family business and, above all, increase sales directly from the bakery, which is the cheapest not only for the bakery itself but also for customers. The main focus should be healthy baking from yeast, preservation of the bakery traditions and the

creative development of own recipes. The bakery is again preparing a project proposal to be submitted in order to bring funds for new machines. There is a need for a machine which will produce healthy cakes as well as a packaging machine, which could be used also for other products. Baking furnaces, steaming and mixing machines need to be replaced too.

There were several levels where the family bakery business failed during its nearly 30-year history:

- **State** – the absence of support for small, local entrepreneurs in competition with big players in the market.
- **Missing local support for local products** – the bakery is ignored by the natives of the village and it is rather the newcomers who are shopping there.
- **The bakery itself** – the bakers were still having hope that after a difficult period everything will be good again, until the difficult period became too hard... thus the bakery was forced to clear its debts through a loan from a non-bank institution and ended up in an auction.
- **Family** – where the demanding business has led to quarrels and disruptions of family relationships.

3. Barriers to implementation of projects in the field of social infrastructure

Provision of quality social services in the transition process and at the same time during the adverse demographic development of the region, is one of the key areas of the action plan. These barriers were listed by active participants of the local working group focused on social infrastructure:

- Insufficient **finances** and the difficulty of obtaining resources for either operational or investment costs.
- Missing **community plans for social services**.
- Weak **community life**, lack of co-responsibility, community organising and the related common level of information, lack of promotion and motivation of people at the community level.
- **Slovakia operates on a sectoral system** (each ministry has its own defined area) and the associated lack of coordination
- **High standards** in day care centers.
- Complicated **financing of facilities for seniors** (e.g. loss of subsidy or co-funding by municipality).
- Lack of **volunteers** and the related low tradition of volunteering in Slovakia.
- Insufficient **medical staff**.
- Excessive **bureaucracy**.
- Non-existing **counseling center for the social economy**.
- **Long process of lawmaking** (especially in health care).

- **Senior care is problematic** in the context of kids living abroad and other people taking over the care being underpaid.
- Pensions are low and, as a result, **low-capacity facilities for the elderly** are unsustainable (the practice shows that the minimum number of seniors is 80 and the optimum is 120 in one facility).
- The lack of **legal protection for seniors** (who tend to sign everything).
- Missing **low-threshold facilities** (for temporary assistance, without standards).
- Existing **problems are multi-layered and complex**, which, on the one hand, makes them more difficult to understand, but on the other there is room for synergy and cooperation.

4. Opinions of the local working groups on criteria for transformation projects' prioritisation

The following project priority criteria were formulated as outputs of local working groups to ensure a just transformation of Upper Nitra region:

- Tailor-made transformation to **regional needs**, with an emphasis on broad and deep public participation – activities that do not comply with the partnership principle should not be funded.
- Support of projects that lead to a **net zero carbon economy**.
- Investments in **municipality projects, family, small and medium-sized enterprises** – involvement of local people and civic organisations during project selection.
- Focus on projects that have **positive social impacts** – creating **long-term employment**, for example a municipality enterprise for retraining, which is not focused only on short-term profit.
- **Support quality work** with:
 - good wages,
 - reliable standard employment and affordable social protection;
 - lifelong learning opportunities,
 - good working conditions at safe and healthy workplaces,
 - appropriate working hours with good work-life balance,
 - representation by labor unions and negotiation rights.

The active participants of the local working groups had the opportunity to comment on the sufficiency of suggested criteria and formulated following additional ones:

- Proposed participation, which should be broad and deep, should be preceded by a **dialogue**.
- Projects should supporting **civic engagement and volunteering** (which has the potential to create the first working habits for young people and to promote their responsibility).
- The projects should be preceded by a **situation analysis** or a **feasibility study** which are based on real numbers and statistics.

- The foundation of each idea or initiative should be **sustainability**, whether it is a project, a service or a product.
- Each project should have from the very beginning mechanisms for **monitoring and evaluation**.
- Projects need to have **measurable indicators with greater tolerance** to create room for innovations and experiments, although it might be risky.
- Criteria should not only focus at promoting quality job creation and employment but also directly **support entrepreneurs** who are job creators.
- It should not be forgotten that even in rural areas it is possible to create jobs and to promote local employment in order to reduce work migration.

An expert on the evaluation and coordination of EU-funded projects assessed the additional criteria listed above. She expressed the opinion that the initially formulated criteria are sufficient and covering all the fundamentals. However, the additional criteria proposed by the local working group members could serve as a tool for the project evaluators to assess the submitted transformation projects.

Resources and references:

- (1) <https://www.slov-lex.sk/legislativne-procesy/SK/LP/2018/872>
- (2) <https://eur-lex.europa.eu/legal-content/SK/TXT/HTML/?uri=LEGISSUM:l28120&from=CS>
- (3) https://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/expert_support_coal_sk.pdf
- (4) <https://rokovania.gov.sk/RVL/Material/23592/1>
- (5) <https://euractiv.sk/section/zivotne-prostredie/opinion/rozvoj-hornej-nitry-nemoze-byt-len-v-rukach-vlady-a-sukromnych-bani/>
- (6) <http://www.rtv.s.sk/televizia/archiv/14026/173283#1469>
- (7) <https://www.sepsas.sk/Organy.asp?kod=8>
- (8) <https://beyond-coal.eu/last-gasp/>
- (9) <https://greenpeace.blog.sme.sk/c/494531/vysledky-prieskumu-prijemne-prekvapili-slovaci-nechcu-uhlie.html>
- (10) <http://www.antimon.gov.sk/5278-sk/pmu-sr-ukoncil-presetrovanie-v-oblasti-vyroby-elektriny-z-hnedeho-uhlia/>

Civic association Priatelia Zeme – CEPA thanks for the financial assistance to the European Union, the Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit, European Climate Initiative – EUKI, European Climate Foundation and Open Society Foundations. Content of this publication is the sole responsibility of Priatelia Zeme - CEPA and can under no circumstances be regarded as reflecting the position of the donors.

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