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**Background Study on
Financing Mechanisms for Eco-innovation in SEE**

February 2009

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List of Abbreviations

BiH - Bosnia and Herzegovina
CAD - current account deficit
CEFTA - Central European Free Trade Agreement
CDM - clean development mechanism
CIP - Competitiveness and Innovation Programme
CNB - Croatian National Bank
CP - cleaner production
CPC - Cleaner Production Centre
EBRD - European Bank for Reconstruction and Development
EC - European Commission
EDSM - Energy Development Strategy of Montenegro
EFFBiH - Environmental Fund of the Federation of Bosnia and Herzegovina, The
EFRS - Environmental Fund of Republika Srpska
EIP - Entrepreneurship and Innovation Programme
EU - European Union
FAO - Food and Agriculture Organization
FBiH - Federacija Bosne i Hercegovine
FDI - Foreign Direct Investment
FEP - Fund for Environmental Protection (Serbia)
FEPEE - Fund for Environmental Protection and Energy Efficiency (Croatia)
GDI - Gross Domestic Income
GDP - Gross Domestic Product
GEF - Global Environment Facility
ha - hectare
HBOR - Croatian Bank for Reconstruction and Development
IEE - Intelligent Energy-Europe Programme
IFIs - International Financial Institutions
INSTAT - Institute of Statistics of Albania
IPA - Instrument for Pre-Accession Assistance
IPPC - Integrated Pollution Prevention and Control
ISO - International Organization for Standardization
IT - Information Technologies
KAP - Aluminium smelter in Podgorica [Kombinat Aluminijuma Podgorica]
METE - Ministry of Economy Trade and Energy, The
MoEFWA - Ministry of Environment, Forests and Water Administration, The
MoERD - Ministry of Economy and Regional Development
MoES - Ministry of Education and Science
NCPC - National Cleaner Production Centre
NEAP - National Environmental Action Programme
NPEP - National Plan for Environmental Protection
NSEP - National Strategy of Environmental Protection
NSDS - National Sustainable Development Strategy
NSSD - National Strategy for Sustainable Development
OECD - Organisation for Economic Co-operation and Development
PEEREA - Protocol on Energy Efficiency and Related Environmental Aspects
PEIP - Priority Environmental Investment Programme
R&D - research and development
RES - Renewable Energy Systems
RS - Republika Srpska
S&T - science and technology
SBDC - Small Business Development Center
SECO - Swiss State Secretariat for Economic Affairs
SEE - South East Europe
SFRY - Socialist Federal Republic of Yugoslavia
SME - small and medium-sized enterprise
ToR - Terms of Reference
UNDP - United Nations Development Programme
UNECE - United Nations Economic Commission for Europe
UNFCCC - United Nations Framework Convention on Climate Change
UNIDO - United Nations Industrial Development Organisation
USAID - United States Agency for International development

1. Introduction

The present document is a Background Study within the framework of the project entitled “Promoting Financing Mechanisms for Eco-Innovation in SEE (South Eastern Europe).” The study is based on the a desk study and a survey conducted in 2008 using an electronic questionnaire and interviews with key eco-innovation stakeholders in selected SEE countries: Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Montenegro and Serbia. The findings in this study will be used for preparing a discussion paper for the regional Conference on Financing Eco-Innovation in SEE and the final publication of this project entitled “Regional Study on Financing Mechanisms for Eco-Innovation in SEE.”

In the context of this project, we are looking at promoting financing eco-innovation from the stage of research and development of new green technologies and products, their testing and demonstration projects, to their full commercialisation and finally, adoption and application by enterprises. In sectoral terms, we are focusing on sustainable energy (renewable energy and energy efficiency), recycling and cleaner production.

The specific objectives of this project are to identify existing and upcoming legal, institutional and financial mechanisms which could be used for promoting and financing eco-innovative projects and companies in the region in the upcoming years; identify legal, institutional and financial barriers which should be solved in order to achieve a stimulating environment for financing eco-innovation; launching a regional debate with multi-stakeholders involvement on supporting and implementing eco-innovative projects and companies; and proposing possible solutions for overcoming existing barriers in the SEE countries.

The desk study included a macro-economic overview for the examined countries, and an overview of existing strategies, policies and plans, legislation and relevant institutions and contacts. Based on these results, a questionnaire was designed and sent out to the following contacts: officials from the ministries of environment, finance, economy, regional development, and relevant sectors ministries; chambers of commerce; representatives from environmental technology and eco-innovative SMEs; representatives from relevant sectors’ LEs and SMEs and their associations; representatives from private, national, multinational investment and development banks; universities and research institutes; and environmental NGOs oriented towards eco-innovation issues.

Section 2 of this study provides an overview of macro-economic indicators for the studied SEE countries, which have implications on the capacity of these countries to finance the development of eco-innovation and eco-industries and to mobilize foreign funds for the same purpose. Section 3 analyses the current national strategies, plans and legislation with direct and indirect consequences on supporting eco-innovation and eco-industries, and provides an overview of the main national institutions and financing mechanisms responsible for supporting eco-innovation in various sectors, as well as International Financial Institutions (IFIs) and donor community representation and relevant support mechanisms in each individual country.

2. Regional Macro-Economic Overview

This section presents macro-economic relevant to the capacity of studied SEE countries to support and finance the development of eco-innovation and green technologies. Data and information presented in

this section will be summarised and interpreted in the final publication of this project: “Regional Study on Financing Eco-innovation in SEE Countries”.

2.1. Albania

Lagging behind its Balkan neighbours, Albania is making the difficult transition to a more modern open-market economy. The government has taken measures to curb violent crime and reduce the large grey economy. The economy is bolstered by annual remittances from abroad of US\$600-US\$800 million, mostly from Albanians residing in Greece and Italy; this helps offset the towering trade deficit.

Economic indicators	2004	2005	2006	2007	2008
GDP (US\$ Billions)	7.5	8.4	9.1	10.6	13.5
GDP Growth (%)	7.0	5.6	5.5	6	5.8
GDP Per Capita (US\$)	2,389	2,672	2,903	3,401	4,247
GDP Per Capita (PPP) (US\$)	4,500	4,900	5,300	6,300	6,797
Inflation (%)	2.4	3.2	2.4	3.1	3.9
Unemployment (%)	15.8	14.8	14.3	13.0	13.0
Exports (%GDP)	21.5	22.2	23.6	16.6	10.4
Imports (% GDP)	43.2	46.2	47	37.7	35.9
Current Account Balance	-3.9	-6.5	-5.9	-10.5	-9.2
Budget deficit	-4.9	-3.6	-3.1	-3.4	-
Foreign Direct Investments (% GDP)	3.9	3.4	3.3	5.8	-

Source: Compiled by REC from IMF, Bank of Albania, INSTAT, NCB, WIIW, 2009.

Energy shortages and outdated and inadequate infrastructure contribute to Albania's poor business environment, which make it difficult to attract and sustain foreign investment. Also, the government is moving slowly to improve the poor national road and rail network, a long-standing barrier to sustained economic growth (Central Intelligence Agency, 2009).

Following the financial crisis in 1997, the Albanian economy recovered rapidly and displayed a robust growth performance, recording an average annual growth of 5.8% in 2004-2008. Growth has been fuelled mainly by buoyant domestic demand supported by booming credit, substantial migrant remittances and the expansion of non-tradable sectors. Private-sector development, economic liberalisation, key sectoral restructuring and an open trade regime have contributed to further productivity gains. Over the last few years, Albania has experienced a dynamic sectoral development accompanied by redistribution of production factors and revenues. Two major components of gross domestic income (GDI) are the services and agriculture sectors while the construction sector plays an important role in the annual growth rate (Albinvest, Basic Economic Indicators, 2008).

The cautious monetary policy has proved to be successful in keeping inflation low in recent years, well within the informal $3 \pm 1\%$ inflation target range. Albania's exchange rate regime is an independent float, although the Bank of Albania occasionally intervenes in the foreign exchange market with the aim of smoothing temporary fluctuations and accumulating the necessary reserves. The labour market situation has continued to improve. The unemployment rate (based on the official registered data) fell to below 13% in 2008. Nevertheless, trends in employment are difficult to assess due to limited reliability of available data and significant informal activities, particularly in the agricultural and construction sectors.

Government fiscal indicators have significantly improved since 2000. The general government deficit decreased from 8.2% of gross domestic product (GDP) in 2000 to approximately 3.4% of GDP in 2007. The relatively prudent fiscal stance in recent years both contributed to and benefited from a favourable macroeconomic environment. Combined with solid progress in implementation of reforms aimed at improving tax administration and reducing tax evasion, this led to further consolidation of public finance.

External imbalances in Albania are considerable, pointing to the limited capacity and competitiveness of Albanian exports. The trade balance recorded an average deficit of 24% of GDP in 2003-2008. Financing the trade deficit has been largely dependent on significant remittance inflows and other current transfers. Due to a deteriorating trade balance, the current account deficit (including official transfers) stood on average at approximately 6% of GDP in 2003-2007. A major part of the current account deficit is financed by foreign direct investment (FDI), which has been exhibiting rather volatile inflows in recent years. International foreign exchange reserves have more than doubled since 2000 (European Commission, Economic and Financial Affairs, International Economic Issues, Non-EU economies, Albania, 2009).

For 2008 and 2009 there is no data on FDI, but it is observed that currently large investments are placed into the banking system, as well as the tele-communication sector. Furthermore, many foreign companies are investing in establishment of technological parks, renewable energy, etc. which will affect the development of technological capacities including in the eco-industry in the coming years.

2.2. Bosnia and Herzegovina

Following the end of the war in 1995, Bosnia and Herzegovina experienced a reconstruction phase with large aid inflows and strong economic growth rates. While the reconstruction boom subsided after 2000, growth continued to be sustained at 5.5% on average, between 2002 and 2008 driven by private sector investments, growth in the construction and financial sectors, and in exports. GDP has more than quadrupled and merchandise exports have been growing 20% on average for the past eight years. GDP per capita is estimated at about 4,900 US\$ for 2008, which classifies Bosnia and Herzegovina as a lower middle-income economy. The industrial sector is also performing well, particularly in the Republika Srpska (RS) energy and mineral sectors, reflecting the benefits of new investment associated with recent privatisations and restructuring (European Commission, Economic and Financial Affairs, International Economic Issues, Non-EU economies, Bosnia and Herzegovina, 2009).

Economic indicators	2004	2005	2006	2007	2008
GDP (US\$ Billions)	10.0	10.8	12.3	13.2	14.2
GDP Growth (%)	6.3	4.3	6.3	6.8	5.5
GDP Per Capita (US\$)	2,581	2,751	3,107	3,809	4,848
GDP Per Capita (PPP) (US\$)	5,497	5,942	6,501	7,074	7,618
Inflation (%)	0.6	4.3	4.6	4.9	8.0
Unemployment (%)	43.1	44.7	48.0	44.0	42.5
Exports (%GDP)	29.4	32.6	36.8	36.8	31.2
Imports (% GDP)	70.7	74.7	66.5	69.3	70.6
Current Account Balance (%GDP)	-16.4	-17.8	-8.5	-13.2	-17.2
Budget surplus/deficit (%GDP)	1.7	2.6	2	0.7	0.7
Foreign Direct Investments (% GDP)	3.1	4.9	3.7	10.9	10.6

Source: Compiled by REC from IMF, Central Bank of Bosnia and Herzegovina, Agency for Statistics, Federal Office of Statistics

The political efforts were initially focused on reconstruction, but have gradually shifted towards more structural reforms in combination with institution building. The speed of structural reforms has, however, been mixed, both in terms of sectors and regions. Privatisation has proceeded at a slow pace overall, although with more progress in the Republika Srpska than in the Federation of Bosnia and Herzegovina (FBiH). Overall, the government sector remains large and constitutes around 45% of GDP.

The banking sector has been largely privatized and modernized, and other financial sector reforms have been well advanced. Yet privatization of other state-owned companies has occurred at a slow pace, and the private sector's contribution to GDP is still lower than in a number of other countries in

the broader region. Early attempts at privatization have resulted in diluted ownership and weak governance, and large-company divestiture has been slow. Some privatized companies, however, have become major contributors to real sector growth. The government ought to be praised for a large degree of trade liberalization and the inclusion of Bosnia and Herzegovina into the regional free trade network through the Central European Free Trade Agreement (CEFTA) (World Bank, Country Brief for Bosnia and Herzegovina 2008).

Unemployment is high, but its level is difficult to monitor due to weaknesses in statistics. Official figures show unemployment at 42.5%, but real levels are estimated to be lower. A Labour Force Survey conducted in April 2007 estimated unemployment to be around 29% in the country, 25% in the RS and 31% in the FBiH. Despite high rates of growth and an impressive recovery, poverty still remains a concern. Last estimates put its levels at around 18%, and a further 30% of all citizens are in danger of falling into poverty in the event of an income shock.

Two of the main short-term macroeconomic challenges are inflation and the fiscal accounts. A monetary regime of ‘currency board arrangement’, which has been in place since 1998, has played an important role in supporting price stability. Inflation was 7.5% in 2000, and declined to below 1% per year during 2001 to 2004. As of mid-2008 the inflation rate in both Entities was around 8%, which is not particularly high by regional standards, but well above the prevailing level in recent years as a result of higher international food and fuel prices, domestic pressures from high public spending and credit growth. One major concern is the level of consolidated public spending which has been increasing as a percentage of GDP and is currently around 44%.

Export growth was initially slow but took off in 2004 and in recent years has been remarkable, surpassing that of all other countries in Balkans region. Exporters are increasingly finding new markets, continuing the strong export growth pattern of recent years. While exports are still dominated by steel and aluminium, the shares of more technologically sophisticated products have been increasing, as evidenced by rapid growth in exports of machinery, car parts, and furniture. Share of imports also expanded from a low 38% in 2000 to around 70% in 2008.

During the same period, aid inflows have gradually been reduced as a means of financing. As a consequence, the current account deficit widened after 2002 to levels around 20% of GDP in 2008. The current account deficit is mainly financed by inflows of private-sector capital through the banking sector, remittances and foreign direct investments.

Confidence in the currency is high, as evidenced by steadily increasing local currency deposits. External debt has been reduced to sustainable levels and has been falling in recent years. With net capital inflows exceeding the large current account deficit, foreign exchange reserves have increased, although at a somewhat slower pace of accumulation recently than in the past (World Bank, Country Brief, Bosnia and Herzegovina, 2008). On the capital account the main development in recent years has been the huge surge in foreign direct investment, driven in part by several big-ticket deals, but also by growing investor interest in the country.

The macroeconomic outlook for Bosnia and Herzegovina remains broadly favourable, provided that internal and regional stability is maintained. The country nonetheless still suffers from many weaknesses including a bloated and inefficient public sector, an over-regulated business environment, and a segmented labour market reflecting to some extent the institutionally and ethnically fragmented context in the country. Efforts will have to be made to improve policy coordination between entities and create a unified economic space. And bank oversight and fiscal prudence need to be strengthened. Exports still lack diversification — with metals, mineral products, and wood representing nearly half of sales abroad — and are still vulnerable to price trends for commodities. The country continues to run high current account deficits albeit limited by expatriate worker remittances (bridgat.com).

Further structural reforms are urgently needed, particularly in the FBiH including further privatisations of strategic enterprises, faster registration of businesses, an improved inspection system, effective implementation of bankruptcy laws and improved corporate governance practices, an improved business climate, labour market reforms and educational outcomes in order to support the private sector (European Commission, Economic and Financial Affairs, International Economic Issues, Non-EU economies, BiH). The government should continue with the reforms of the tax system and should particularly aim to reduce the rates of social contributions (EBRD, Bosnia and Herzegovina Economic Overview, 2009).

2.3. Croatia

In the early years of transition, the Croatian economy experienced a sharp drop in output, exacerbated by regional conflicts in the Balkans. Growth resumed thereafter and during most of the last ten years the Croatian economy has experienced relatively robust growth rates. The Croatian GDP reached its 1989 level for the first time again in 2005, when GDP per capita was estimated at about US\$8,800. Real GDP grew by 5.6 per cent in 2007, the highest rate since 2002, but growth is significantly lower in 2008 as a whole.

Economic indicators	2004	2005	2006	2007	2008
GDP (US\$ Billions)	35.65	38.88	42.92	50.05	63.95
GDP PPP (US\$ Billions)	54.7	58.8	63.6	68.9	73.1
GDP Growth (%)	4.3	4.3	4.8	5.6	3.8
GDP Per Capita (US\$)	8,030	8,753	9,664	11,271	12,374
GDP per capita PPP (US\$)	12,328	13,235	14,318	15,532	16,474
Inflation (%)	2.0	3.3	3.2	2.3	4.7
Unemployment (%)	13.8	12.7	11.1	11.8	13.2
Exports (%GDP)	46.9	46.6	48.4	49.0	48.3
Imports (% GDP)	56.1	55.2	55.9	57.3	62.5
Current Account Balance (%GDP)	-5.1	-6.4	-7.8	-8.6	-10.1
Budget deficit (%GDP)	-4.9	-4.1	-3.0	-2.3	-2.3
Foreign Direct Investments (% GDP)	2.5	3.9	7.8	9.6	8.4

Source: Compiled by REC from IMF, National Bank of Croatia, Central Statistical Office, Ministry of Finance, Federal Statistical Office, World Bank – World Development Indicators.

The main drivers of growth were gross fixed capital formation, private consumption, industry, retail trade and financial intermediation. Inflation remained modest, helped by central bank efforts to maintain exchange rate stability and government fiscal consolidation efforts. However, inflationary trends are reasserting themselves as a result of soaring global food and oil prices, despite somewhat weaker pressure on the demand side. (World Bank, Country Brief, Croatia, 2008).

The economic transition process in Croatia is well advanced. Price liberalisation and macroeconomic stabilisation have been achieved and maintained. The country can be considered as a functioning market economy. The restructuring and privatisation of the banking sector is virtually complete. However, corporate sector privatisation has progressed unevenly and there is still a large unfinished privatisation agenda. The restructuring of large loss-making enterprises in the shipbuilding, steel and agriculture sectors poses a particular economic policy challenge. The share of private-sector activity in total production is estimated at around 60-70% (European Commission, Economic and Financial Affairs, International Economic Issues, Non-EU economies, Croatia, 2009).

With a high level of public spending, at about 49% of GDP, which is nine percentage points of GDP above the public spending levels in new EU member states, Croatia has one of the largest public sectors in Europe. It is also high from the growth and efficiency point of view. The high level of

public spending, contributed significantly to the progressive increase in overall country indebtedness. External debt to GDP ratio, in US\$ terms, stood at 95.2% at the end of 2007 (World Bank, Country Brief, Croatia, 2008). The economy's high degree of euroization also poses a risk to macroeconomic stability and leaves the government with little room to manoeuvre in the event of shocks.

According to official statistics, the unemployment rate remains at around 17%. Labour force survey data suggest a significantly lower unemployment rate of around 12%. Employment growth has been relatively low and concentrated in the services sector and in public administration. Merchandise exports have been rather volatile over 2001-2008 and on average recorded lower growth rates than merchandise imports. As a consequence, trade deficit remained at around 24% of GDP, but was partly compensated for by significant surpluses in trade with services, notably resulting from a strong tourism sector. Strong capital inflows, also in the form of foreign direct investment, resulted in balance-of-payments surpluses and have led to strong increases in the foreign exchange reserves.

The Croatian National Bank (CNB) has continued with its restrictive monetary policy, further tightening measures introduced in 2007 to curb the rise in external indebtedness. These measures have had some success, as the growth rates of both gross external debt and domestic credit have slowed. The current account deficit (CAD) continued to widen, mostly due to rising oil and commodity prices as well as goods imports stimulated by credit growth. Although public sector savings improved, private external liabilities have been growing fast. Meanwhile, record levels of net FDI were recorded in 2007, accounting for 8.4% of GDP.

Croatia's medium-term economic prospects remain favourable due to the prospect of European Union (EU) membership and the expectation that further structural reforms, especially those related to reducing state ownership and intervention, will be implemented. Market liberalization has affected the telecommunication, transport and energy sectors. Croatia's main challenge will be to accelerate the process of privatisation and enterprise restructuring. However, in an environment of higher inflation and growing global risk aversion a mix of slightly less restrictive monetary policy and more prudent fiscal policy is required. It needs to improve the prospects for sustained growth, investment and catching up further by reducing significant state intervention and enabling stronger private-sector development. Therefore, the remaining deficiencies in public administration and the judiciary, which seem to undermine market entry and exit and the enforcement of property and creditor rights, need to be addressed in a determined way. Prudent fiscal policy and further fiscal consolidation seem essential, also in view of rising external indebtedness and a recent widening of the current account deficit.

More needs to be done to improve the transparency of public finances, especially the inclusion of all off-budget operations in the general government accounts, and to achieve a reduction in government spending. Faster progress in implementing health care reforms is needed to avoid the government paying off debts of state-owned hospitals and health insurance providers, while pension reform also has some way to go. Furthermore, external indebtedness, albeit growing at a slower pace, will need to be monitored carefully (EBRD, Croatia Economic Overview, 2009).

2.4. Former Yugoslav Republic of Macedonia

Economic transition started in 1991, following independence from the disintegrating Socialist Federal Republics of Yugoslavia. The first half of the 1990s was characterised by the loss of traditional markets and the interruption of crucial north-south trading routes due to regional conflicts and the sanctions imposed by the United Nations on the remainder of the Socialist Federal Republic of Yugoslavia (SFRY). As a result, by the mid-1990s, the national production level had declined to about three-quarters of its level before independence. Recovery started in the second half of the 1990s but was interrupted in 1999 by the conflict in neighbouring Kosovo and in 2001 by a short internal ethnic conflict. Since then, the economy has returned to relatively stable, albeit low growth.

Economic indicators	2004	2005	2006	2007	2008
GDP (US\$ Billions)	5.4	5.8	6.4	7.7	9.6
GDP Growth (%)	4.10	4.10	3.95	4.98	5.50
GDP Per Capita (US\$)	2,648	2,860	3,123	3,751	4,683
GDP Per Capita (PPP) (US\$)	6,870	7,384	7,899	8,491	9,128
Inflation (%)	-2.1	1.6	3.0	6.7	5.5
Unemployment (%)	37.2	37.3	36.0	34.9	34.0
Exports (%GDP)	38.7	43.1	47.0	43.7	46.8
Imports (% GDP)	60.5	62.5	57.3	64.6	77.4
Current Account Balance (%GDP)	-8.4	-2.6	-0.9	-3.0	-14.0
Budget surplus/deficit (%GDP)	0.3	-0.6	-0.5	0.6	-1.0
Foreign Direct Investments (% GDP)	2.9	1.6	6.9	9.1	9.7

Sources: Compiled by REC from IMF, EIU, National Bank of Macedonia, Destatis, bfai

The Former Yugoslav Republic of Macedonia (thereof Macedonia) has achieved a high degree of macroeconomic stability. Privatisation of state-owned and socially owned enterprises is largely complete; institutions for regulating and supervising the market economy and the necessary legislation are in place. Transparency and accountability of public services have been improved.

The country only seems to have reached pre-independence output levels in 2005-2006. However, a considerable part of economic activity takes place in the informal sector which, according to some rough estimates, accounts for up to one-third of the country's output. In 2008, the value of the country's economic output was about US\$9.6 billion, which translates into a per-capita gross domestic capita of some US\$4,680 at current exchange rates and determines Macedonia as a middle-income country. In terms of purchasing power, the income level of the two million inhabitants is currently at about 27% of the EU-27 average. The country's key industries are manufacturing, trade and agriculture. Services - primarily in trade and transport, and communications - accounted for 58% of GDP in 2007. Close to 30% of GDP was generated by industry, dominated by iron and steel, textiles, construction, and the exploitation of metals and minerals (World Bank, Country Brief, Macedonia, 2008). Openness to trade is relatively high, with total trade amounting to about 100% of GDP.

Public finances are close to balance, while the debt ratio is relatively moderate and declining. The country's external balances are characterised by a high and relatively stable trade deficit, amounting to some 22% of GDP, and high inflows of private transfers, mainly in the form of worker remittances. As a result of a rise in these capital inflows, the current account deficit has declined markedly in recent years. So far, foreign direct investment has played a minor role, amounting to some 1-2% of GDP annually. In many cases, FDI inflows are related to privatisation projects. The recent inflow of capital has allowed the Central Bank to increase foreign reserves to more than five months' worth of imports of goods and services.

GDP growth was broad based, supported by a sharp increase in exports, strong industrial performance and higher household consumption. Domestic and foreign investors reacted positively to the improving investment climate and the strong government investment promotion campaign. At the same time, consumption was stimulated by higher wages, modest employment growth, and increased access to consumer credit. Inflation rise in 2007-2008 was stimulated by rising food and energy prices and affected demand-side factors contributing to inflationary pressures. At the same time, the current account deficit deteriorated massively and reached around 14% of GDP in 2008, compared to 3.2% of GDP in 2007. Stronger FDI inflows prevented a more rapid loss in import-coverage of reserves and a build-up in debt, both of which remain reasonable. While the policy response so far has been prudent, a significant expansion in the rest of the year may further fuel inflation and the external imbalance.

However, unemployment remains above one-third of the labour force. Unemployment was already at a high level of above 20% when the country became independent, and it increased further during the

1990s. Unemployment has now declined to around 34%, according to figures from 2008 (World Bank, Country Brief, Macedonia, 2008). However, a considerable number of those registered as unemployed seem to find jobs and income in the unregistered economy. Job creation remains insufficient to trigger a more substantial reduction in the unemployment rate which remains one of the highest in the region. Around 63.5 percent of the working age population participates in the labour force, with 35% of it being unemployed. At the same time, absolute poverty continues to affect around one fifth of the population (World Bank, Country Brief, Macedonia, 2008).

The country is well-advanced in establishing a functioning market economy, though reform efforts have been lacklustre at certain times and frequently interrupted. Progress in reforms in recent years has certainly paid off, with the economy picking up and unemployment and poverty showing modest signs of declining. However, much remains to be done to create an environment that will generate well-paid and stable jobs through private sector-led growth.

The functioning of the market economy remains impeded by institutional weaknesses, such as slow and cumbersome administrative procedures, shortcomings in the judiciary, and relatively low levels of land and property registration. As a result, the business climate has not been conducive to stimulating investment, particularly foreign direct investment, and growth. In addition, the functioning of the labour market is deficient, which impedes the reduction of the particularly high unemployment. Domestic and foreign investment has also been low. The wider current account deficit together with a possible negative impact of the international financial turmoil on capital inflows highlight the need for a continuation of the government's prudent fiscal stance.

2.5. Montenegro

Transition from a socialist to a market-based economy essentially began in Montenegro in 2001. The economy is fairly small in absolute and per-capita terms. Gross domestic product is estimated at US\$3.7 billion for 2008 and in per capita terms reaches roughly 10% of the EU-27 average. Between 2004 and 2008, the economy grew at an average annual rate of 5%. Services, including financial services and tourism, are driving the strong growth but this year has also seen a recovery in mining and utilities and a continued solid performance in the construction and industrial sectors.

Economic indicators	2004	2005	2006	2007	2008
GDP (US\$ Billions)	2.05	2.22	2.46	2.97	3.7
GDP Growth (%)	4.2	4.1	6.5	6.5	6
GDP Per Capita (US\$)	3,922	4,100	4,300	4,795	6,200
Inflation (%)	3.1	3.4	2.1	4.2	5
Unemployment (%)	27.7	30.3	30.0	30.0	30.0
Exports (%GDP)	42.5	44.3	30	27	24
Imports (% GDP)	58.7	62.1	75	86	84
Current Account Balance (%GDP)	-7.7	-8.8	-29.4	-32.2	-31.6
Budget deficit (%GDP)	-2.7	-1.6	1.3	0.5	1.5
Gross foreign debt (in % of GDP)	31.2	29.6	26.1	24.9	25.2
Foreign Direct Investments (% GDP)	-	20	25	27	24

Sources: Compiled by REC from IMF, Bank of Albania, INSTAT, NCB, WIIV, 2009.

The structure of exports of goods is characterised by a poor diversification of products. In fact, 56% of exports are mainly related to unalloyed aluminium. The other main exported products are food, beverages and tobacco, machinery and crude materials from the wood and timber industry. However, Montenegro is a relatively large exporter of services, mainly by virtue of being a growing tourism destination (European Commission, Economic and Financial Affairs, International Economic Issues, Non-EU economies, Montenegro, 2009).

On the external side, there has been no let-up in the huge surge of foreign direct investment into the country in recent years. Gross FDI inflows in 2007 were close to EUR 900 million and amounted to EUR 215 million in the first quarter of 2008. Property continues to account for a substantial share (nearly 40%) of the total. Due to the large import needs of the construction and tourism sectors, the current account deficit is by far the highest among transition countries at 32% of GDP in 2008, but it is likely to abate once the extraordinary inflows of FDI decline.

However, there are obvious concerns about overheating. Montenegro's unilateral adoption of the Euro some years ago rules out any exchange rate adjustment. This puts the burden on fiscal policy. So far, the government has managed the boom in activity fairly well and has run fiscal surpluses in the past two years. However, the level of government spending, at around 45% of GDP, is high by regional standards and may need to be reduced over time to ensure overall sustainability.

According to the employment agency, the unemployment rate is stable and is about 30%. Average annual inflation reached 5% in 2008. However, imports grew rapidly in 2007, widening the deficit in the trade balance to 44% of GDP. As a consequence, the current account deficit expanded to 32% of GDP. In parallel, net foreign direct investments are expanding fast – partly reflecting the imports of investment goods – and covered 82% of the deficit (EBRD, Montenegro Economic Overview for 2008).

As the first stage of transition reforms has been broadly achieved in Montenegro, price liberalisation and macroeconomic stability in particular, policy priorities must now rest on improving the functioning of market mechanisms, as well as in consequently pursuing structural reforms to sustain economic growth, while preserving achieved macroeconomic stability through a credible and prudent mix of fiscal and income policies. Currently, the majority of remaining companies still under state ownership are those utilities controlled by the municipalities, airports, railways and public institutions of general interest (health, education, social protection and culture).

The medium-term outlook for Montenegro is bright but the risks to this favourable outcome are substantial. The country is going through a post-independence boom, mostly associated with the development of property, tourism and other services, but it will be difficult to maintain this level of growth without a more diversified economy. The current double-digit rate of inflation is likely to create serious competitiveness problems for exporters unless it is reduced significantly in the coming months. In the context of rising energy prices, the future of the main export earner, aluminium smelter KAP (Kombinat Aluminijuma Podgorica), is uncertain as the company relies on low electricity prices to remain viable, although the current high subsidies are due to end in 2010. The tourism sector continues to have great potential but the huge influx of property investment runs the risk of overburdening the country's still weak infrastructure and putting off future tourists. Meanwhile the country's further integration into Euro-Atlantic structures looks set to continue but the slow pace of institutional reform and administrative weaknesses may delay progress towards eventual EU accession.

2.6. Serbia

Transition from a socialist to a market-based economy essentially began in Serbia in 2001. Following a sharp drop in output, related to transition and the Balkan wars of the 1990s. The stable dinar (national currency), a budget surplus, and a restructured financial sector all demonstrate the success of stabilisation policies. The short-term economic outlook for Serbia is positive, but enterprise restructuring and unemployment remain major challenges. Macroeconomic stability has been restored which provided basis for fast growth of the economy, and incomes have risen strongly. GDP per capita, estimated at US\$3,280 in 2004, has reached US\$7070 in 2008. During the same time period, poverty has fallen from 14% of the population to about 6.6%.

Economic indicators	2004	2005	2006	2007	2008
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GDP (US\$ Billions)	23.8	25.4	29.7	39.9	52.2
GDP Growth (%)	8.4	6.2	5.7	7.5	5.0
GDP Per Capita (US\$)	3285	3585	4140	5440	7070
Inflation (%)	13.7	15.6	11.1	10.1	8.6
Unemployment (%)	31.5	32.6	33.3	33.9	30
Exports (%GDP)	22.7	25.1	27.1	21.8	22.2
Imports (% GDP)	48.4	45.2	46.9	43.4	44.0
Current Account Balance (%GDP)	-11.7	-8.5	-13.1	-17.2	-18.6
Budget surplus/deficit (%GDP)	0.9	1.9	1.5	1.3	-0.6
Gross foreign debt (in % of GDP)	52.5	62.0	61.4	64.3	63.3
Foreign Direct Investments (% GDP)	3.9	5.9	5.2	5.5	13.8

Sources: Compiled by REC from IMF, EIU, Statistical Office of Republic Serbia, National Bank of Serbia, Ministry of Finance and Economy of Serbia, Federal Statistical Office

Between 2001 and 2008, GDP has been growing at an average annual rate of 5.3%. Nevertheless, growth was stable till 2007, but this pace slowed during 2008. The rapid expansion in recent years of domestic credit, particularly to households, has fuelled a consumer boom that is reflected in a high demand for imports and an associated large current account deficit of around 17% of GDP, despite continued growth in exports. Due to continued central bank policy to target inflation, the inflation has slowed from above 90% in 2001 to below 9% in 2008 (European Commission, Economic and Financial Affairs, International Economic Issues, Non-EU economies, Serbia, 2009).

Exports have been growing robustly, albeit from a low starting point, but accounted for only about 50% of imports. As a consequence, trade and current account deficits have remained at above 20% and 10% of GDP respectively. However, strong inflows in the form of worker remittances, foreign direct investment and foreign loans have resulted in a balance of payments surplus and, consequently, strongly rising foreign exchange reserves at the National Bank of Serbia. FDI averaged 7.2% of GDP over the last five years, resulting in Serbia being among the top countries in Europe and Central Asia with respect to attracting such investment, but greenfield investment is still rare (EBRD, Serbia Economic Overview for 2008).

Overall, first-stage transition reforms are well advanced. The privatisation of the banking sector has been completed, with over 70% of assets owned by foreigners. Restructuring of socially owned enterprises has advanced, but fallen behind a rather ambitious schedule. Several large enterprises remain state-controlled and, although restructuring has advanced somewhat, progress in privatising these is very slow. As a result, the share of private-sector activity remains at a relatively low 55-60%. Over 26% of all persons employed in Serbia work for state owned enterprises or the central and local governments. They still place a drag on the economy via substantial fiscal and quasi-fiscal subsidies (World Bank, Country Brief, Serbia, 2009).

Unemployment, poverty, and poor inclusion of the vulnerable remain concerns in Serbia. During the past decade, a long period of instability, international isolation, and economic turmoil adversely affected living standards of the vast majority of the population. The country's poor economic performance over that period led to a decrease in real earnings and was accompanied by deterioration in social protection and health services. As a result, poverty rose sharply in the 1990s.

Even successful privatisation of socially-owned enterprises often means jobs losses, and this, together with the overall lack of greenfield investment, has driven unemployment to 30%. When corrected for hidden employment, the unemployment rate is estimated at about 14% and employment is increasingly being generated by entrepreneurial activities. Unemployment is affecting young people and minority groups in particular.

Serbia's high growth rate is likely to slow down in the short term in the context of the global financial crisis. However, provided political stability is maintained, Serbia is likely to be of great interest to foreign investors in the coming years, not only because of the major privatisations and infrastructure

projects slated for the next few years, but also for the country's geographical advantages, particularly of the capital, Belgrade, with its connections to other parts of the region.

The key risk to stability remains the issue of Kosovo but there are hopes that the present government will not let this block further progress on economic and structural reforms. The main short-term macroeconomic challenge is on the fiscal side. Promises made during the parliamentary election campaign by parties that are now in government, especially those concerning pensions and other social payments will be difficult to keep without increasing the budget deficit even further. The other key risk lies on the external side; trade and current account deficits are increasingly financed by borrowing from abroad, and careful management and supervision of lending standards will be necessary to avoid a painful contraction of the economy (EBRD, Serbia Economic Overview for 2008).

3. Country Analyses

In this section the relevant national strategies, plans, legislation, institutions, associations and NGOs are presented together with the most important international financial institutions and donors and their programmes and funds for supporting eco-innovation, from research and development, to full implementation of eco-technologies.

3.1. Albania

Albania is characterised by its small size in terms of population and income. In addition, the structure of the economy is still determined by a high share of agricultural employment and rural population, limited exports and FDI.

After the completion of the structural reform integrating institutes of the Academy into universities, research is mainly undertaken in universities and ministerial research institutes. Although there are no systematic research and development (R&D) and innovation statistics, estimates regarding the public expenses are close to 0.18 % of GDP, which is about 15 million Euros. This is almost exclusively funded by the public sector and foreign sources. Human resources for research include about 240 researchers and 350 professors, who dedicate more of their time to teaching than research. The distribution of researchers by scientific discipline shows that almost 40% of researchers in Albania are in the domain of natural and technical sciences, 14% in medical sciences and around 8% in agricultural sciences. A considerable brain drain in the last decades has deprived the national economy from more researchers and scientists.

The main governmental body responsible for R&D activities and the general administration of Albanian national science and technology (S&T) programmes is the Ministry of Education and Science (MoES). The financing of R&D activity is conducted through institutional funding by the government, programme financing through the MoES, programme financing on the framework of bilateral programmes, and international collaboration. The latter has been introduced recently, is largely financed by donors' funding, is thinly spread and may still be regarded as a pilot. While there have been visible efforts to concentrate resources and introduce competitive criteria, a research and innovation policy has not been generalised yet.

According to the October 2006 EU Report, Albania has made slight progress in the area policies for implementing the European Charter on Small Enterprises. According to the small and medium-sized enterprise (SME) policy self-assessment report, which was carried out based on the Organisation for Economic Co-operation and Development (OECD) evaluation index of ten dimensions, the SME

policy index for Albania was two out of a maximum of five. This compares with the lowest levels of Western Balkans. The weakest dimensions are entrepreneurship education and training. Another weak dimension is the promotion of innovation and use of new technologies.

3.1.1. Relevant Strategies, Plans and Legislation

National Strategy for Science, Technology and Innovation (STI)

The national strategy of science expected to be approved by government on May 2009. The small share of R&D in the higher education sector is mainly due to the lack of direct financing and human capital available today. It is unlikely that the private sector will begin to invest in formal R&D in a major way but it will be a goal to develop structured product development and innovation activities in a minimum number of firms.

The strategic goals can be summarised as follows:

1. Public research spending should reach 0.6% of GDP (assuming it is 0.18% at the moment); this would multiply absolute amounts by four reaching 60 million in current prices, since GDP is expected to grow as well.
2. The share of gross expenditure on R&D from foreign sources should be increased notably from the EU (Framework Programmes, etc.) and international donors.
3. Creation of four to six science centres of excellence including dedicated laboratory equipment or workspaces that could be used for new technology based firms (pre-incubation, testing, certification, etc.).
4. *Double* the number of researchers, through brain gain and training of new researchers (establishment of *graduate schools*; *train 100 PhDs*);
5. Targeting a 'pilot' number of 100 companies participating in R&D through own labs, participation in consortiums or contracts.

Business and Investment Development Strategy 2007-2013

Business and Investment Development Strategy¹ gives a special attention to the strengthening of Albanian businesses such as increasing the technological capacities of SMEs. Investments in 2007 and 2008 have grown significantly, mainly in investments on industrial machinery and equipment (including equipment for renewable energy production and energy efficiency measures in industry) as well as information technologies (IT). According to the Institute of Statistics of Albania (INSTAT), investments on machinery and equipment for 2007 are increased with about 57% comparing 2006. The strategy dedicates special attention to the programmes for the increase of SMEs' competitiveness, the draw of a strategic programme and action plans regarding technology transfer and innovation, and it envisages:

- Boosting competitiveness of SMEs through application of the programme on competitiveness fund.
- Drafting strategic programme and action plans on technology transfer and innovation using Instrument for Pre-Accession Assistance (IPA).
- The participation of Albania in the community programme on Competitiveness and Innovation Programme (CIP), for the period 2007-2013.

¹ Available art: http://www.dsd.gov.al/dsd/pub/business_and_investment_development_strategy_155_1.pdf

The Strategy stresses the importance of good coordination between SME, export and FDI promotion policies, and of establishing partnerships between FDI and SMEs in the value chain. It includes specific measures for technology transfer and innovation, research and development, partnership with universities and academic resources.

The measures in the Business and Investment Development Strategy that are relevant for supporting eco-innovation are:

- Establishing and improving management and training skills;
- Promoting creative enterprises; and
- Increasing competitiveness through technology transfer and innovation.

The first measure is supposed to be implemented through encouraging universities to provide specialized courses of entrepreneurship in such areas as e-business and innovation technologies. The second measure will be implemented through studies and development programmes for specific sectors.

The third measure listed above should be carried out through:

- Development of technology transfer and innovation strategy;
- Development and implementation of training programs on SME competitiveness and internationalization potential;
- Improved infrastructure of supporting export promotion institutions;
- Preparation of a program for the establishment of a pilot R&D centre at Tirana University;
- Program for developing Albanian brand products, a pilot model;
- Support for the creation of innovative SMEs as an employment source;
- Partnership program for the establishment of innovation centres;
- Support for SMEs in priority economic (manufacturing) sectors;
- Support for SMEs so that they are acquainted with and implement International Organization for Standardization (ISO) and European Commission (EC) standard systems;
- Establishment of a technology transfer and innovation promotion fund. In order to improve and transfer contemporary technology and given the high cost of crediting in the country, support schemes for technology transfer and innovation will be prepared;
- E-commerce development program; preparation of the legal framework on ecommerce and electronic signature;
- Establishment of industrial zones;
- SME observatory. Annual and periodic SME performance analysis, studies and publications; and
- Establishment of the Euro Info Correspondence Centre.

The estimated costs for implementing the Albanian Business and Investment Development Strategy are about LEK 4,660 million (33.9 MEUR). It is assumed that part of these funds will be supported by the EC (IPA and CIP).

SME Development Strategic Program 2007 – 2009

The SME Development Strategic Program envisages accelerated improvement of business and investment environment, increased competitiveness of SMEs in regional and global markets through the development of technology and information, the reduction of administrative barriers, and the provision of facilities for businesses such as business incubators and technology clusters. Currently there are only two business incubators in place, one in Tirana and one in Shkodra, but both of them did not yet justify their real role as generators of new businesses and employment. In the SME Development Strategic Program 2007-2009 it was foreseen to support the establishment of business

technology incubators. During 2008 the Government has presented seven economic zones and are signed three concession contracts as follows:

1. Economic zones with the status 'Industrial Parks' Koplik, Shkodra with surface 61 hectares (ha), state property. It is *signed the concession contract* and it is expected to be approved by the Council of Ministers.
2. Economic zones with the status 'Industrial Parks' Shengjin, Lezha, with surface 3.2 ha, state property. It is *signed the concession contract*.
3. Economic zones with the status 'Industrial Parks' in Elbasan, with surface 254.7 ha, state and private property.
4. Economic zones with the status 'Industrial Parks' Spitalle, Durrës, with surface 850 ha, state and private property.
5. Economic zones with the status 'Industrial Parks' Vlore, with surface 125 ha, state property. It is *approved concession contract* signed between METE and association "Idea Vlora".
6. Economic zones with the status 'Industrial Parks' Shkoder, with surface 130 ha, state and private property.
7. Economic zones with the status 'Industrial Parks' Lezhe with surface 54 ha, state and private property. Lezha municipality is the contracting authority.

Decree on n establishing the Albanian competitiveness fund

Upon the Government Decree No. 112, dated 21.02.2007, "On establishing the Albanian competitiveness fund" the government has set a fund of 25 million ALL (200,000 Euro). Till the end of 2008, from Alb-Invest there are approved 63 projects with a value of 48 million ALL, from which 33 projects are fully implemented.

National Strategy for Environment and Intersectorial Strategy on Environment (2006)

This strategy envisages further development of economic instruments for environmental protection such as charges, fines or taxes and subsidies and a creation of an environmental fund "that will be financed by environmental taxes and fines, as well as by donations. The Environment Fund will serve to finance projects for environment protections and technological innovations that improve the environment." However, the fund has not been established yet.

National Strategy for Development and Integration

The National Strategy for Development and Integration is important for eco-innovation support regarding the energy efficiency and renewable energy. One of its aims is to increase the use of renewable energy sources by preparing a special law for renewable energy, based on the EU Directive 2001/77, which will define clearly the authorisation procedures for constructing facilities and will attract foreign investors, particularly for wind farms, for which there is a great deal of interest; improving the sub-legal and regulatory framework to promote the use of solar panels, especially for the heating of water for residential and industrial purposes; improving and completing the entire legal and regulatory framework in the framework of the new law on concessions which opens up major opportunities to attract private investment for the construction of small hydroelectric power stations; and by approving the Law On the production, transporting and trading of biofuels and other renewable fuels for transport.

The strategy also aims to encourage the efficient use of energy "both in the exploitation of energy sources and the reduction of electricity consumption" by developing efficiency programmes for various sectors; strengthening the legal framework for the efficient use of energy; improvement the implementation of the law on energy efficiency. Other measures include reducing of the consumption of energy in the residential sector through changes in the tariff structure, promotion of the use of efficient electricity bulbs, use of thermal insulation etc.; promotion of the use of modern technologies

in the industrial, service and agricultural sectors for efficient energy supply; and promotion of better management and higher efficiency in the transport sector. The strategy also envisages establishment of a competitiveness fund, a public service for innovation and technology transfer, and encourage creation of producer associations.

National Strategy for Energy

The national strategy for energy contains three energy efficiency and renewable energy specific objectives:

- Establishing of an efficient energy sector from the financial and technical aspects;
- Establishing of an effective institutional and regulatory framework and restructuring of energy companies; and
- Increasing the energy efficiency in generation/production and final use of energy sources aiming a minimal environmental pollution.

The strategy compares two scenarios: the passive scenario, and the active scenario. The active scenario envisages quantitative description of the measures needed to increase the energy efficiency and to introduce alternative sources in the energy system in order to “transform the energy system into a supporting sector for the development of the Albanian economy and the increase of the general standard of life”. The Strategy includes an Action Plan that envisages: reduction of energy demand through supporting energy efficiency and renewable energy through specific measures with implications on eco-innovation. These measures include: thermal insulation of existing stock of public buildings and based on new code for new buildings; promotion of solar energy use for preparation of hot water in households and service sectors; promotion of efficient lighting in households, service and industry sectors; increase of energy efficiency for existing stock of boilers/furnaces in industry and service sectors; and other measures and other eco-innovation related measures.

Law on Environmental Protection

The Law on Environmental Protection includes a set of environmental friendly fiscal incentives for economic operators and individuals, in compliance with the principles of the free market in order to promote investments in clean technology, conservation of energy, and efficient use of natural resources. Article 87 on environmental funds envisages financial support to scientific research, performance of studies and training of specialists. Article 20 on waste management envisages recycling, reusing and regeneration of wastes in other processes.

Law on Energy Efficiency

The Law on Energy Efficiency creates the legal framework required for the promotion and improvement of the efficient use of energy and minimization of negative impacts on the environment. It envisages establishing of an Energy Efficiency Fund which should be administered by the National Agency of Energy. The law also envisages creation and implementation of energy efficiency and renewable energy systems (RES) programs prepared by the National Agency of Energy.

3.1.2. Institutions and Stakeholders

Ministry of Economy Trade and Energy (METE)

The Ministry of Economy Trade and Energy (METE) drafts and implements policies that promote economic growth and stability, to enable local business development and attraction of foreign investment, competition and guarantee of a safe market, ensuring a sustainable development perspective of the country's energy resources, to promote cooperation economic and trade, realize that

good management of public property in the function of its privatization in strategic sectors and small and medium. The METE designed and is now implementing Business and Investment Development Strategy 2007-2009, which includes measures for technology transfer, competitiveness and innovation, as discussed above.

Ministry of Environment, Forestry and Water Administration

The MoEFWA is responsible for the implementation of water policy and forestry policy. The mission of the Ministry of Environment, Forests and Water Administration (MoEFWA) is to draft and propose policies, strategies and action plans for the protection and administration of the environment, forests, waters and fisheries in order to achieve sustainable development, and to improve the quality of life and enable the country to join the European Union. The accomplishment of this mission is carried out through participation, initiation and coordination of the activities that lead to long term developments and wellbeing, by protecting the nature and raising the awareness of the public opinion. The MoEFWA's main tasks include: implementing relevant national policies; defining priority environmental and forestry investments; coordinating environmental protection-related activities of the other ministries and local authorities; and development of national research programs in the environmental field.

Ministry of Education and Science

The Ministry of Education and Science is responsible for the development and improvement of the education system in Albania, through changes on the legislation and improvement of the teaching infrastructure, and for designing a strategy for science and technology development. The MoES is also responsible for functioning, administration and development of the scientific research, based on the Law for Science and Technological Development, and for adaptation of the education system to the necessary internal or global changes. The Ministry is responsible for preparation of the scientific and technological policy, related national research and development programs, development and improvement of the scientific and technological system from institutional, financial and legislative aspects, and management of National Programs for the scientific and technological development.

International Programmes and Mechanisms

The United Nation Development Program (UNDP) in Albania

UNDP Albania helps the Government of Albania to protect the environment through addressing global environmental issues and sustainable management of resources, including the support of renewable energy sources. More specifically, UNDP supports the Climate Change Unit within the Ministry of Environment Forestry and Water Administration. The UNDP's Climate Change programme works with the Ministry through producing required reports to the United Nations Framework Convention on Climate Change and its Kyoto Protocol. UNDP promotes Solar Water Heating in the marketplace, with a project that foresees the installation of 70,000 m² of solar panels in Albania, with a cumulative green house gas reduction potential of 1.5 million tons over the next 20 years. In addition to the technical and financial support given to Government counterparts, UNDP provides support to a number of non-governmental and community-based organizations working on specific environmental concerns.

The European Bank for Reconstruction and Development (EBRD)

The EBRD is the largest institutional investor in Albania. The Bank is concentrating on developing the private sector and emphasizing infrastructure development as an integral part of business progress. The present focus for infrastructure activity is the restructuring and rehabilitation of the energy sector and the development of transport and telecommunications networks. The EBRD is the largest single investor in Central and Eastern Europe and the Commonwealth of Independent States. Direct investments generally range from EUR 5 million to EUR 230 million. Smaller projects are financed both directly by the EBRD and through financial intermediaries. By supporting local commercial banks, micro-business banks, equity funds and leasing facilities, the EBRD has helped finance over one million smaller projects. The EBRD provides loan and equity finance, guarantees, leasing facilities and trade finance. The Bank also finances professional development through support programmes.

EC Programmes: EIP and CIP

The Competitiveness and Innovation Programme, for the period 2007-2013 in Albania, was established according to a decision of the European Parliament No. 1639/2006/EC regarding the Programme.

Within CIP programme there are three main sub-programmes focused on SMEs that are dedicated to types of technology that protect the environment:

- Entrepreneurship and Innovation Programme (EIP);
- ICT policy support programme; and
- Intelligent Energy-Europe Programme (IEE).

Albania signed a Memorandum of Understanding with the EC in 2008 on cooperation within the Entrepreneurship and Innovation Programme which is part of the Competitiveness and Innovation Programme framework. According to the Memorandum, Albania can participate in the following measures of the EIP programme:

- innovation and eco-innovation pilot and market replication projects; and
- policy analyses, development, coordination and twinning.

Memorandum was ratified and enacted in the Law no.9984, in 2008 “On ratification of Memorandum of Understanding between the Republic of Albania and European Community on the participation of the Republic of Albania in the community programme Entrepreneurship and Innovation Programme of the Competitiveness and Innovation framework programme for 2007-2013’, published by the Official Journal no.143 in 2008 and entered into force on 7 October 2008. In 2008, the Ministry of Economy Trade and Energy contributed 36,700 EUR to the EU General Budget for participating in the EIP. As of March 2009, the Ministry is in the process of negotiations for the Intelligent Energy Europe Programme.

3.2. Bosnia and Herzegovina

Due to the existence of two main entities (Federacija Bosne i Hercegovine and Republika Srpska), Bosnia and Herzegovina (BiH) is lacking legislative and political basis for efficient decision making and delegating responsibilities in the environment and energy sectors, which is even more acute in the sectors of renewable energy and energy efficiency. Certain action plans on federal and entity levels for energy sector have already been adapted; however, their implementation is very slow.

3.2.1. Relevant Strategies, Plans and Legislation

Bosnia and Herzegovina, with its two main entities, has strategies in place at the national level, while the laws are developed and applied at the entity level.

National Environmental Action Plan

The National Environmental Action Plan envisages establishment of sustainable development funds for financing projects, providing administrative support for sustainable management of cleaner production enterprises, increasing energy efficiency by technologic restructuring, better use of energy sources and increased use of renewable energy (hydro, solar, wind and geothermal energy). It also envisages preparation of a strategy for development of energy sector that would provide balanced consumption of domestic (hydro, thermal and geothermal energy) and potential foreign (oil and gas) energy resources and introduce the use of new energy sources (geothermal, wind, solar energy, etc.) with the intention of maximizing the utilisation of domestic renewable resources.

Energy Strategy of RS ToR

Within the Terms of Reference (ToR) for the Energy Strategy of RS it is defined under the section on financing that Energy Strategy should provide estimates of financial resources for the implementation of (among other activities):

- activities for increasing energy efficiency on all levels;
- production of electricity from cogeneration;
- use of renewable energy sources; and
- increasing the energy efficiency in residential construction, industry, transport, multipurpose buildings, etc.

The Energy Strategy should also elaborate the tax and custom stimulations for the renewable energy sources and energy efficiency in order to fulfil environmental protection demands. Financing should be applied to necessary investments in to network grid, island-isolated systems and small producers, on state and local community activities as well as investments of entrepreneur and citizens them selves.

Strategic Plan and Program of the Development of Energy Sector in FBiH

One of the priorities of this Plan is a rational use of energy and energy efficiency. The special priority is the use of renewable energy sources such as wind, biomass, geothermal, solar and the potential of hydro energy, especially on small rivers. The section “Operative Measures” mentions the necessity for development and adaptation of legal framework for the renewable sources.

Draft Environmental Protection Strategy of FBiH

The Draft Environmental Protection Strategy proposes improvement of financing instruments for a set of environmental protection measures, including the following measures that are relevant for eco-innovations:

- improving eco-efficiency; and
- stimulating technical innovations related to environmental protection and pollution reduction

One of the main goals of the strategy is stimulation of usage of renewable energy sources. This goal is envisaged to be attained through the following measures:

- Policy development for providing incentives for production and use of renewable energy – voluntary mechanisms;
- Establishing the clean development mechanism (CDM) office and system of CDM use;
- Developing policies that encourage production and use of renewable energy sources and enable international support (through CDM flexible mechanism and CDM office), and

- Promoting the use of renewable energy resources to decrease dependence on energy imports.

Relevant Environmental Protection Laws in RS

Apart from the Law on Environmental Protection, the RS entity adapted the following legislation: the Law on Fund for Environmental Protection, the Law on Waste Management, the Law on Protection of Air and the Law on Protection of Nature. Each of these laws contains financial mechanisms for environmental and environmental technology development projects.

The Law on the Fund for Environmental Protection defines the Fund's duties in collecting and distributing funds for environmental protection in the area of Republika Srpska. Its aim is to:

- support measures that protect the environment, especially in the area of development and financing information system, education and information dissemination, research and public activities related to environmental protection; and
- preserving the protected areas, improving the public awareness on environmental issues and encouraging research related to environmental protection.

The Law on Waste Management provides measures for waste minimisation, processing, reuse, recycling, and safe disposal. The Law also stipulates the following eco-innovation and eco-technology measures:

- using technologies that minimise the use of raw materials and energy;
- reusing of the materials to the maximum possible extent;
- production with minimum waste generation and harmful effects; and
- reuse, recycling and replacement of raw materials with 'waste' to the maximum extent possible.

Relevant Environmental Protection Laws in FBiH

The Law on Environmental Protection Fund of FBiH defines the main objectives and activities of the Fund, including collection and distribution of funds for the environmental protection. The Fund activities include financing of the preparation, implementation and development of program documents, improvement of environmental conditions and the use of renewable energy sources.

The FBiH Law on Waste Management has a goal of encouraging and ensuring the conditions for waste minimisation, reuse and recycling, separation of raw materials and its use for energy production and safe waste disposal. The Law stimulates the reuse of waste, especially as an energy source when possible. The producers should use energy efficient technologies that generate minimum waste.

3.2.2. Institutions and Stakeholders

Ministry of Economy, Energy and Development of RS

The Ministry of Economy, Energy and Development are responsible for: industry, energy and mining related to production, transfer and distribution of electricity; engineering; production of electrical machines and appliances; production and processing of paper; collection and primary processing of industrial waste; and preparation of development strategy for small and medium enterprises.

Ministry of Science and Technology of RS

The roles and responsibilities of the Ministry of Economy, Energy and Development of RS are related to scientific research; strategy for technological development of Republika Srpska; stimulation of applied research; and development of domestic investment technologies and human resources in scientific research, innovation, development and enhancement of technology. The Ministry has produced the Regulation on procedures and criteria for financial support to innovations in Republika Srpska. This Regulation is allowing investments and financial support to innovations up to 37,650 KM (around 19,000 EUR) which is far from sufficient.

Ministry for Environment and Tourism of FBiH

The Federation of Bosnia and Herzegovina entity has a specific constitution which is different from the RS constitution. In addition, FBiH is divided into ten cantons, each of which has its own ministries and responsibilities, including the ministry which is responsible for environmental issues. According to the Federation Constitution, environment is the shared responsibility of the Federal government and cantonal governments.

Ministry of Education and Science of FBiH

The FBiH Ministry of Education and Science performs administrative, professional and other tasks as laid down by the legislation related to the competencies of the Federation of Bosnia and Herzegovina in the areas of: development of scientific activity, protection of copyrights and intellectual property, coordination of scientific-researching activities, development of the scientific-researching institutions, encouragement of applied research, development of investment technologies and human resources in scientific-researching fields, development and improvement of technologies, and follow-up innovations. The basic document governing the scientific activities is The Law on Scientific Research. This Law is applied in those cantons that have not yet enacted their own by-laws.

Ministry of Development, Entrepreneurship and Crafts of FBiH

The laws related to promoting eco-innovation on a Federal level are in the following areas:

- stimulation of development, entrepreneurship and crafts;
- supporting application of innovations and introduction of modern technologies in the area of entrepreneurship and crafts;
- increase of entrepreneurship and crafts' share in the economy;
- enabling entrepreneurship in the economy; and
- training of entrepreneurs and craftsmen through regular and training courses.

Environmental Funds

In Bosnia and Herzegovina, environmental funds are established in both entities. The Environmental Fund of the Federation of Bosnia and Herzegovina (EFFBiH) and Environmental Fund of Republika Srpska (EFRS) were founded by the governments of the Federation of Bosnia and Herzegovina and of Republika Srpska under their respective Laws on Environmental Fund (in 2006 in FBiH and 2002 in RS) defining all necessary conditions and scope of activities of the Funds. The Funds were established for the purpose of collection and allocation of funding for the development of water management infrastructure, waste minimization and adoption of integrated waste management, as well as construction of other municipal infrastructure facilities necessary to meet EU accession standards.

Environmental Fund of RS

EFRS is largely funded via the state budget, but it has all administrative predispositions for independent collection of funds from foreign and international sources, such as loans from IFIs and soft loans schemes. Starting from 2008, the Fund revenues are secured through fees for users of natural resources and influence on the environment; RS budget; fees levered on polluters and grants (EFRD, Institutional Profile, 2008). Allocation of funds is done through loans, subsidies, financial help and donations. Since the money is allocated to EFRS from water fees (15% of total revenues is allocated to EFRS), the Ministry of Water Management, Forestry and Agriculture requires from the EFRS to dedicate those funds to water protection activities. It was foreseen that until the end of 2008, approximately 500,000 EUR would arrive to the EFRS account.

Environmental Fund of FBiH

At the time of this publication, there is no staff at the EFFBiH and the documents regulating the work of the Fund are still in a draft stage. Initial funding for establishing the institution has been received and additional revenues, such as water charges, have been allocated to the Fund since 2006. Unrealised finances are expected to be accumulated and dedicated for environmental projects after the Fund becomes operational (EFFBiH, Institutional Profile, 2008). IFIs have a strong interest in establishing the Fund that would help both entity Funds to apply jointly for IPA and bilateral donor funding. At present, the status of the Fund appears complex and decision to start operation could depend on strong external technical assistance capable to build up the foundation for a solid environmental institution in FBiH.

3.3. Croatia

The desk research and survey show that the most important strategies and plans relevant to supporting eco-innovation are in place in Croatia. The primary legislation is generally of good quality and well aligned with relevant EU directives. The secondary legislation is also well aligned with EU directives, although not to the extent of EU member states. However, the legislation is not well aligned with national and local conditions which cause problems in implementation. In spite of that, the implementation of the laws and regulations, and actual support to eco-innovations is at a more advanced level than in other countries covered in this study, especially so in the domain of energy efficiency and renewable energy.

According to information obtained from interviews, the current regulations (secondary legislation) do not provide enough incentives for introducing eco-innovation and implementing eco-technologies, and the current financing mechanisms, both domestic and international, are overly administrative and slow in most cases. Still, there are examples where procedures have been quick, since the time does not depend only on the financing mechanisms but also on the capacity of the project proponents to provide all necessary documentation. In case of smaller projects, developers often decide to self-finance a project rather than wait for a lengthy administrative procedure in order to obtain support from one of the existing applicable mechanisms.

3.3.1. Relevant Strategies, Plans and Legislation

Croatian Science and Technology Policy 2006 – 2010

The Croatian Science and Technology Policy 2006-2010 has primary objectives to promote creation and growth of knowledge-based enterprises; create technology infrastructure to support knowledge-based SMEs and technology-based start-ups; stimulate demand for R&D from business; manage

intellectual property; diversify funding sources for R&D, attract private sector investments and create risk capital industry; and to promote public confidence in science and innovation awareness.

Legislation Relevant to State Aid for Innovations

Between 2005 and 2008 the Croatian Ministry of Finance has enacted a number of legal documents of which the most relevant for our study are the Act on State Aid (O.G. 140/05); Regulation on State Aid (O.G. 50/06); Decree on the Rules of State Aid (O.G. 121/06; 45/07; 13/08); and Decree on the Rules of State Aid for R&D and Innovations (84/07). Other two relevant decrees are those on state aid for SMEs (39/08), investing risk capital in SMEs (91/08), and state aid for higher education and research (91/08).

The Decree on the Rules of State Aid for R&D and Innovations (84/07) refers to the EC state aid rules and the need to comply with its requirement not to contravene free market competition (section 1.1 – Goals). In section 2.1 (Scope) the Decree defines three eligible sectors for R&D and Innovations, where the priority is given to environmental protection, optimal energy use, waste management and security. Therefore, this Decree can be seen as a direct and explicit driver for stimulating eco-innovation and R&D in the sectors of sustainable energy, recycling, as well as cleaner production.

National Sustainable Development Strategy (Draft)

Our analysis of the Draft National Sustainable Development Strategy of Croatia² (NSDS) shows acknowledgement of the need for R&D and innovations in the field of eco-technologies (on pages 6, 32 and 34). On top of these general statements, R&D and eco-innovations are included in one of the basic principles, two sets of measures, and one set of indicators as outlined below. However, there are no numerical targets set, neither for measures nor for indicators. Our recommendation is that such targets could be included in the final version of the strategy, or in a relevant follow-up implementation planning document.

Among the thirteen basic principles of directing Croatia towards sustainable development, one principle is to “use the best available knowledge in ways that are technically, technologically, economically socially and environmentally justified, by applying cost optimization” (NSDS p.5). Among the eight key sustainability challenges identified for Croatia, two are relevant: “Sustainable Production and Consumption” (sic.) and “Interconnectivity”. The main Sustainable Production and Consumption goal is “to achieve a stable economic growth and to decouple it from environmental degradation”. One of the 16 measures to achieve this goal is to “invest into scientific research and to apply new, cleaner, and environmentally more efficient technologies with lesser use of natural resources...” (Sustainable Production and Consumption Measure Nr. 14, NSDS, page 19).

The main Interconnectivity goal is to connect well all parts of the territory (including islands) with a transport network, at the same time trying to minimize unwanted effects on the economy, society and the environment. One of the ten measures is to “stimulate the use of clean fuels and technologies (seaways, biodiesel, ethanol, etc.) and transition to transport modes that are energy efficient.” (Interconnectivity Measure Nr. 1, CRO NSDS, page 19).

Among the eight sets of Croatian sustainable development thematic indicators presented in a table (on pages 36 to 39) the third set relates to Sustainable Production and Consumption, and the fifth set relates to Energy. In our personal communication with representatives from various ministries, we learned that during the sessions of the NSDS working groups, there have been discussions about eco-innovation. However, there was no wide recognition of the eco-innovation issue among the

² The Draft NSDS of Croatia is available at http://www.mzopu.hr/doc/NPSOR_2010.pdf

participants in the working groups as yet. Therefore (and in the absence of target values), it remains to be seen whether the measures described above will be systematically applied in line with the strategy.

National Strategy and National Plan for Environmental Protection

The Croatian National Strategy of Environmental Protection (NSEP) and National Plan for Environmental Protection (NPEP) from 2002 were both published in the Official Gazette No. 46/02. Among the main priorities of the National Strategy of Environmental Protection are: establishing solid relationships with financial institutions and EU funds which could finance the projects in all sectors of environmental protection. The strategy defines economic instruments for financing environmental financing priority sectors, including the sector of sustainable energy. In that context, the strategy supports financing energy efficiency measures, measures for reducing emissions from existing energy facilities, reduction of the use of fossil fuels, improved use of renewable energy sources, and production of environmentally acceptable fuels.

The strategy also stipulates economic measures such as co-financing projects to increase energy efficiency in existing facilities, stimulating the introduction of renewable energy sources, subsidizing green fuels, introduction of additional taxes on the use of fossil fuels, stronger differentiation of energy prices, taxation of fuels according to expected CO₂ emissions, introduction of taxes on CO₂ emissions, and subsidization of more energy-efficient household appliances, all of which has a direct stimulative effect on green-tech enterprises and eco-innovation. Other than the emphasis on market based instruments for stimulating implementation of eco-technologies in the specific sector of sustainable energy, other initiatives for stimulating eco-technologies in cleaner production and recycling were not evident. Provisions for stimulating research, development and innovation in any of these sectors could not be identified.

The National Action Plan for Environmental Protection³ does touch upon recycling and cleaner production, apart from sustainable energy, but again not specifically relating to research, development and innovation, only on implementation of existing best available technologies.

In the section on industry and mining (subsection 5.1.1.5 – Objectives and Measures) the key objectives include “a general framework for clean and sustainable production and to reduce basic and energy inputs for the purpose of stimulating a permanent development, increasing the recycling level and preventing environmental accidents”.

In the section on energy (subsection 4.1.2.4 – Objectives and Measures) the environmental protection objectives include, *inter alia*: energy efficiency increase, modification of technology for generation of energy and fuels for power industry in an environmentally acceptable manner, and reduction of the age of components and equipment built in power generation facilities

In the section on consumers and consumption (subsection 4.1.7.4 – Objectives and Measures) the environmental protection objectives include the “shift of focus in the industrial production caused by introduction of cleaner technologies (durable products, re-use, recycling, use of secondary raw materials... to involve [consumers] in the system of separate collection of waste... to set the framework for determining the payment of the actual (full) price of the product for consumers...[and] to implement the principle of internalization and encourage market mechanisms to enable acceptable prices of environmentally acceptable products”.

All the above mentioned objectives have also appropriate sets of measures assigned in a table at the end of each subsection. These objectives and measures can be seen as directly and/or indirectly stimulating implementation of eco-technologies and eco-innovation. Each of the above objectives and

³ The NPEP of Croatia is available at: <http://www.mzopu.hr/default.aspx?ID=4248&Lang=Eng>

measures have assigned “possible sources of finance” that include the government budget, economy sector; (local) city or municipal budget; international sources; and county budget. Each of the above mentioned subsections ends with a table assigning appropriate possible sources to each objective and measure.

Law on Environmental Protection

The Law on Environmental Protection (Environmental Protection Law, Official Gazette No. 110/07) regulates among other issues the financing instruments for environmental protection. Among other environmental goals (Article 6) the Law stipulates:

- Rational use of energy and encouraging the use of renewable energy;
- Achievement of sustainable production and consumption; and
- Abandonment and replace the use of hazardous and harmful substances.

In Article 34, the Law stipulates that the Government has the obligation to provide funds for improving the environmental protection system. Article 38 defines the duties Fund for Environmental Protection and Energy Efficiency (FEPEE) and the ways for collecting and disbursing funds for FEPEE, which is further elaborated in Article 174. In that sense the Law was harmonized with the previously enacted law on the Law on Fund for Environmental Protection and Energy Efficiency discussed below. Article 176 stipulates the duty of the responsible ministry to award special achievements in finding best practicable solutions in production processes regarding environmental quality impacts, and in development and research projects for environmental protection among other fields.

Law on the Fund for Environmental Protection and Energy Efficiency

The Law on the Fund for Environmental Protection and Energy Efficiency (Official Gazette No. 107/03) defines the duties and funding mechanisms of the FEPEE. Apart from financing environmental protection, energy efficiency and renewable energy projects, the Fund has the role of providing technical assistance for the preparation of such projects. The Fund can participate in co-financing programs, funded by international funding mechanisms as well. Further details are stipulated in the Statute of the Environmental Protection and Energy Efficiency Fund (Official Gazette No.193/03, 73/04). The assets of the FEPEE can be used, among other purposes for:

- Promotion of cleaner production, and avoiding and reducing waste and emissions in the production process;
- Implementation of national energy programs;
- Encouraging use of renewable energy sources (sun, wind, biomass, etc.);
- Promotion of sustainable construction; and
- Promotion of educational, research and development studies, programs, projects and other activities, including demonstration activities.

Air Protection Law

The Air Protection Law (Official Gazette No. 178/04, 60/08) does stipulate for financing research and development (i.e. eco-innovation) in environmental protection matters, and especially so regarding climate change mitigation measures (Article 60). It also stipulates that investments in air quality protection and renewable energy solution technologies, measures, and equipment can be exempted from taxes, subject to subsequent regulations (Article 61).

Energy Strategy and its Implementation Programme (2002)

The current Energy Strategy of Croatia (Official Gazette, 38/2002)⁴ contains brief sections on energy efficiency and renewable energy goals and policies (pp. 10, 11). The strategy includes objectives such as improvement of energy efficiency from the production, transformation, transmission and transport to distribution and consumption of energy, utilisation of renewable sources of energy, realistic and market-related prices of energy and development of energy market and entrepreneurship, and privatisation processes which should encourage energy efficiency and good energy management environmental protection, which in the energy sector implies the primary action in connection with energy efficiency, renewable sources, choice of energy-generating products and application of state-of-the-art protection technologies.

The 2002 strategy was accompanied by the Programme of Implementation of the Energy sector Development Strategy which was a package of sub-programmes including those in the domain of energy efficiency and renewable energy, namely: KUENZgrada (Energy efficiency in building construction) MIEE (Industrial energy efficiency network), KOGEN (Cogeneration program), KUENcts (Centralised thermal systems' energy efficiency program), TRANCRO (Transport energy program), BIOEN (Biomass and waste energy use program), SUNEN (Solar energy use program), ENWIND (Wind energy use program – that included a program of continuous wind monitoring in Croatia, development of Pre-commercial Wind Turbine, and has resulted in several commercial wind projects⁵), as well as MAHE (Small hydro plant construction program) and GEOEN (Geothermal energy use program). Most of these programs are still in progress and all are financed from the EPEEF, while some of them are also supported by various international funding mechanisms (UNDP, FAO, UNECE, IEE, WB, GEF, and several EU programmes).

Legislation Related to Sustainable Energy Production

The Energy Act from 2001 as updated in 2007 (O.G. 68/01⁶; 76/07⁷), defines the state support to energy efficiency and renewable energy. The Croatian Incentive fee support system works as a feed-in tariff system since it is based on obligation of the market operator (HROTE) to purchase RES/cogeneration electricity produced by eligible producers and on the obligation of electricity suppliers to take over this electricity.

The Croatian support system is based on the obligation of all electricity buyers to pay an incentive fee (levy), and the electricity purchase obligation on the market operator (HROTE) who is paying, partially out of the incentive fee funds, an incentive price to the eligible producers. Regulation on the minimum share of electricity produced from renewable energy sources and cogeneration whose production is incentivised (OG 33/07) sets out rules on defining the period of time and amount of RES/cogeneration electricity that the market operator is obliged to purchase. The incentive fee is paid by all electricity buyers, as a 'supplement on the electricity price' raised by electricity suppliers and transferred to the market operator, who is finally obliged to pay the incentive price (made out of the Incentive Fee Funds) to the eligible producers.

The Energy Act is supported by the Electricity Market Act (O.G. 177/04), Act on the Regulation of Energy Activities (O.G. 177/04), as well as the following secondary legislation relevant for renewable energy sources and cogeneration:

- Regulation on fees for promoting electricity production from renewable energy sources and cogeneration (OG 33/07)

⁴ Available at: http://www.ieabioenergy-task38.org/countryreports/croatia/energy_strategy_croatia.pdf

⁵ Ravne I, Trtar – Krtolin, Stupisc, Jasenic, and Orlice

⁶ Available at: [Energy Act](#)

⁷ Available at: [Act on Amendments to the Energy Act](#)

- Regulation on the minimum share of electricity produced from renewable energy sources and cogeneration whose production is incentivised (OG 33/07)
- Tariff system for the production of electricity from renewable energy sources and cogeneration (OG 33/07)
- Ordinance on the use of renewable energy sources and cogeneration (OG 67/07)
- Ordinance on attaining the status of eligible electricity producer (OG 67/07)

Green Paper for Energy Strategy Update and the Energy Efficiency Master Plan

The current Draft (Green Paper) for the Energy Strategy Update⁸ is being devised by the Ministry of Economy, Labour and Entrepreneurship with UNDP assistance. Chapter 4 of the Green Paper, with concrete activities and measures, is dedicated to energy efficiency. In general, these measures and activities will enable the development of energy markets and market-based energy prices, legislative framework for stimulating energy efficiency, a national institutional framework for implementing the energy efficiency policy, and financial support for implementing energy efficiency measures, including “innovative mechanisms of financing”. Furthermore, the activities and measures are precisely set up for the sectors of industry, transport, households, and services. Chapter 9 of the Energy Strategy Update Green Paper is dedicated to renewable energy sources with clear goals for energy production capacities installation and production targets up to 2030, for biomass, biofuels, wind, mini-hydro, geothermal and solar energy. These clear objectives will have a direct impact on stimulating eco-innovation and implementing eco-technologies in the sustainable energy sector. The Energy Efficiency Master Plan⁹ has been prepared together with the Energy Strategy Update Green Paper, and it relates to the 2008 – 2016 period. Following the energy efficiency objectives laid out in the Energy Strategy, it prescribes necessary short-term (2008-2010) and long term (2011-2016) measures. The implementation plan also nominates responsible implementing institutions, target groups and sectors, envisaged budget, and possible sources of financing (Energy Efficiency Master Plan, pp. 67-73).

Waste Management Strategy

The Waste Management Strategy of the Republic of Croatia (Official Gazette No. 130/05) and the Waste Act (Official Gazette No. 178/04, 111/06, 60/08) provide detailed stipulations for developing an integrated recycling system in the country, research and development in the field, and a wide spectrum of eligible mechanisms for financing these activities. The Strategy envisages financing from non-earmarked state funds, earmarked funds (through FEPEE) as well as regional and local administration funds, in combination with venture capital, concessions and other forms of public-private partnerships, pre-accession, cohesion and structural funds, as well as soft loans from IFIs and the Croatian Bank for Reconstruction and Development.

In the section on the waste management vision, recycling and recovery is one of the means to achieve the ideal zero-landfilling state. The priorities for realizing the Waste Management Strategy include increase of waste management fees, increase of waste management funds, increase of waste separation, and building the facilities for integrated waste management, which in principle, are (albeit indirect) drivers for stimulating implementation of eco-technologies and even more indirectly of eco-innovation in the waste sector including recycling. The strategy estimates that the total funds needed for its

⁸ Available at:

http://www.energetska-efikasnost.undp.hr/attachments/181_Nacr%20Energetske%20Strategije%20_Zelena_knjiga_101108.pdf

⁹ Available at:

http://www.energetska-efikasnost.undp.hr/images/stories/masterplan/EEEMP_final-eng.pdf

implementation from 2006 to 2015, amount to EUR 3.2 billion. Half of that sum should be provided from public sources (state budget, EPEEF, as well as regional and municipal funds). The other half is envisaged from other sources (venture capital, private public partnerships, own sources, grants and preferential loans from IFIs).

Waste Act and Regulations

The Waste Act (Official Gazette No. 178/04, 111/06, 60/08) and the waste management aims (Article 5) include, the development of clean technologies, more efficient use of natural resources, technical development and promotion of products that minimize the negative impacts of waste and pollution, energy and material recovery from waste, while implementing the most (technically and economically) effective available technologies. Article 36 defines the responsibilities of the importers and producers of waste generating products and their packaging. These responsibilities are further specified in the Regulation on Packaging and Packaging Waste (O.G. 97/05) which also determines the fixed level (0.50 HRK, approximately 0.07 EUR) return fee for standard PET, Aluminium, and Ferric beverage containers. The fee goes to the account of the Environmental Protection and Energy Efficiency Fund. Every retailer that sells products in these containers is obliged to collect the containers back and return the fee to citizens.

The introduction of the return fee created positive and negative effects at the same time. On one hand it increased the EPEEF's budget drastically as well as the amount of collected bottles, especially PET. However, at the same time it also killed the "green islands" schemes that existed until 2005, which included glass and paper. In Zagreb, for example, there used to be a large number of green islands (at a convenient distance for the citizens in living in most of the blocks) until 2005, while at the present (early 2009) there are only five points in the whole city where it is possible to bring glass and paper, and the citizens are not motivated to take their used glass and paper there.

Thus, the amount of collected PET has grown, while the amounts of collected glass and paper dropped significantly. Furthermore, since the PET container commercial production price is only 0.23 HRK (approximately 0.03 EUR), it created a whole range of illegal mini businesses (so called "garage PET blowers") that produce PET bottles and return them to retailers at the expense of the national budget and the environment (Personal Communication, 06).

Apart from switching to the commercially priced beverage container return fee, several respondents mentioned that at least part of the incomes from the return fee should be earmarked for organizing schemes for collecting and recycling other recyclable waste streams, such as secondary and tertiary packaging, such as the used wooden transport palettes. Currently, the companies have to pay to public utility companies to take away the palettes, even though these are a valuable secondary material resource.

Without earmarking, the EPEEF's financial support is focused on remediation and closing of existing waste dumps, and partly on supporting project preparation of future regional sanitary landfills, which is of course as political priority, both domestically and in the EU accession context. However, many respondents expressed that new regional management centres and integral recycling systems should have been in the same (if not bigger) focus, than closing old dumpsites. In the past and current period bigger portions of financing should have directed at supporting the recycling industry in all its sub-sectors, based on market principles, as well into development of best available technologies, not only in recycling but also in material and energy production. This would, in turn, both directly and indirectly stimulate eco-innovation and best technologies replication and implementation by domestic companies and researchers.

Currently, only the PET recycling sub-sector is entirely supported, and even that on non-market principles, which in turn creates monopolistic conditions, kills competition and demotivates research,

innovation and technology replication and implementation, both in the PET and in other recycling sub-sectors.

The regulations for waste from electric and electronic equipment and for waste tires are also not optimized for the domestic market and infrastructure conditions, which turns recycling of these materials unprofitable, and in the case of waste tires counterproductive, because excessive transport distances and resulting CO₂ emissions. The waste from electric and electronic equipment charges are based only on weight, and not on the specifics of the products, which results in the fact that only large products of simple structure are being recycled. The economic losses in these schemes are being covered from EPEEF and state budget, instead of being invested into developing more efficient and profitable recycling schemes, as well as into research and development in the area of cleaner production.

3.3.2. Institutions and Stakeholders

Ministry of Economy, Labour and Entrepreneurship

The Ministry of Economy, Labour and Entrepreneurship through its Department for Stimulating Investments and its Energy and Mining Division, is the ministry in charge of energy policy. The Ministry of Economy submits to the Government energy needs and policy proposals, drafts secondary legislation and/or regulations in collaboration with the Croatian Energy Regulatory Council, in order to establish general principles on the basis of which the Croatian Energy Regulatory Council acts. In the past several years, the Ministry has enacted a large number of regulations with an aim to facilitate easier project development in the field of energy efficiency and renewable energy

The Ministry's Energy and Mining Division consists of the following departments:

- Energy Department
- Strategic Planning and Energy Balance Department
- Energy Systems Department
- Renewable Energy Resources and Energy Efficiency Department
- Energy Balance, Review and Market Department and
- Common Activities and International Cooperation Department

The Renewable Energy Resources and Energy Efficiency Department is further divided in three units, for energy efficiency, renewable energy, and unit for bio-fuels.

Ministry of Science, Education and Sport

Within the Ministry of Science, Education and Sport, Department responsible for the development of technical culture, which promotes innovations and related activities among non-governmental organizations, is particularly relevant for eco-innovations. Scientific research in Croatia is monitored and conducted in six fields of science: natural sciences, technical, biomedical, biotechnical, and social sciences and humanities. The system is currently financed through direct project financing with a mechanism of annual monitoring of results; financing of junior researchers on tangible projects, with multi-year monitoring of their progress (acquiring a master's and a doctoral degree, and publishing scientific papers); and through financing research and technology development equipment.

National Financing Mechanisms

From the national financing mechanisms (both for micro and macro projects) the major funds come from the Ministry of Environment and Spatial Planning the Fund for Environmental Protection and

Energy Efficiency, and the Croatian Bank for Reconstruction and Development. From the international financing mechanisms, the most important are those of the EC, UNDP, EBRD, and the World Bank. There are also smaller size national funds available in other line ministries (e.g. ministries for investment, regional development, tourism, agriculture etc.) and relevant national and regional agencies (e.g. regional energy agencies) which can be used for sustainable energy, cleaner production and/or recycling, depending on the ability of a project proponent to fit their applications into the conditions of these funds.

Fund for Environmental Protection and Energy Efficiency

The Croatian Fund for Environmental Protection and Energy Efficiency, which is an extra budgetary fund, became operational in 2004. A tool of implementing environmental policy and financing environmental programs, at present it focuses primarily on co-financing municipal waste projects. The resources of the fund come from earmarked charges levied on environmental polluters and users, industrial waste and motor vehicle charges, budget transfers and revenues from international bilateral and multilateral cooperation in the field of environment (FEPEE, Institutional Profile, 2008). The Fund's resources are allocated through grants, soft loans, subsidies for interest rates on development and loans from commercial banks. The resources of the Fund are primarily used to finance programmes and projects in accordance with the National Environmental Protection Strategy and National Environmental Action Plan, the strategic energy documents, and other relevant strategy documents and regulations. Financing is directed to general environmental protection purposes, sustainable use of natural resources, waste management (65% of overall expenditures in 2005-2008) and support of energy efficiency and renewable energy sources.

The Fund is responsible for promotion and establishment of cooperation with international and domestic financial institutions. Jointly with the Croatian Bank for Reconstruction and Development (HBOR), the fund is supporting Loan Programme for the Financing Project of Environmental Protection, Energy Efficiency and Renewable Energy Sources. The Fund is also involved in managing EU assistance to Croatia and is currently implementing project for developing waste management infrastructure under IPA 2007-2009 Environmental Operational Programme. In 2006, EPEEF disbursed a total of EUR 102 million. Out of that amount, EUR 100 million was allocated for environmental projects and EUR 2.35 million was allocated for energy efficiency projects (REC, PEIP Croatia Analytical Report June 2008).

Croatian Waters is responsible for assistance in preparation of the projects and IPA application in water sector. In 2007-2009 EUR 21.5 million was disbursed for remediation of official landfills, EUR 14.3 million is allocated for illegal dumpsites remediation and closure and EUR 53.4 million for hot spots remediation. In 2009-2011 EPEEF will support investment for establishment and construction of regional waste management centre EUR with 51.5 million (PEIP Croatia Analytical Report June 2009).

Croatian Bank for Reconstruction and Development (HBOR)

Large share of the projects receive funding through recently established Environmental Protection and Energy Efficiency Fund (EPEEF), Croatian Bank for Reconstruction and Development and through previous EU programmes such as PHARE and ISPA. One of the priority objectives of the HBOR concerns environmental protection, sustainable use of natural resources, energy efficiency, renewable energy, and financing of infrastructure, including environmental infrastructure (HBOR, Institutional Profile, 2008). The Bank has elaborated specific loan programs: infrastructure loan program and environmental protection loan program dealing with upgrade and reconstruction of municipal infrastructure. Loans are given for up to 15 years with a yearly interest rate of 4% for projects investing in specially protected areas and 6% for all others. In 2007, loans in the amount of EUR 66 million were approved by HBOR to further promote investments in environmental protection and energy projects.

3.4. FYROM

The current laws and strategies do not pose any barriers for general implementation of eco-innovations. However, there is a lack of supportive infrastructure (coordination of scattered and internationally supported activities, weak human resources capacity etc.). Problems become more severe when going from personal to institutional and finally to the system level. At the personal level, the available human resources are not sufficient and there is a need for training and other types of improving the existing skills and knowledge. The same holds for appropriate awareness rising activities aimed at modification of the behaviour of the stakeholders, their attitudes towards the new technologies, as well as the criteria according to which the eco-innovation, cleaner production, sustainable energy, and recycling related decisions are adopted. This is particularly true in the context of supporting energy efficient technologies, since in Macedonia the energy prices are still relatively low.

The institutional and systematic capacity is not sufficient to create supportive institutions and to design, implement and enforce policies for eco-innovations and technology transfer, as well as to monitor their results. Since the relevant primary laws are mostly in line with the EU environmental *acquis*, it is not deemed appropriate to make any interventions in the legal framework. A number of by-laws is not yet in place. However, as described above, the institutional and human resource capacities are inadequate to enforce and monitor laws, as well as to implement strategies.

There are no subsidies hindering eco-innovations. On the other hand, there are no systematic measures (except of a number of running programmes which are supported by international agencies) providing funding mechanisms for eco-innovation. There is a State Aid Law defining the rules for subsidies on the private sector; funds available for general State Aid are not provided presently from national sources, while continuity of calls for proposals is dependant on the provision of international funding. Subject to the future success in the implementation of the National Environmental investment Strategy and the GEF funded project on the Sustainable Energy, eco-innovation will obtain sufficient funding. However, the key challenge is the strengthening of the institutions in order to increase the absorption capacity for international funding, in parallel with making available national financial resources for co-financing.

3.4.1. Relevant Strategies, Plans and Legislation

National Environmental Action Programme (NEAP II)

The NEAP II has a general one paragraph provision that mentions the approach to eco-innovation relating to the merits of economic instruments, providing an incentive for innovation and development (REC Survey).

Law on Environment

The Law on Environment include encouraging the use of renewable natural energy sources, and encouraging the use of products and application of cleaner production and use of clean technologies that are most beneficial to the environment. The principles of the Law (Article 15) include the principle of cleaner production by applying a comprehensive environmental protection strategy concerning raw materials, production processes, products and services, shall be encouraged, so as to reduce the risk to human life and health and the environment and increase the economic and ecological efficiency.

Law on Environment also defines an Annual Investment Programme (for environmental protection) aimed at stimulating/financing the following activities: development and the implementation of programmes, projects and preventive measures and measures intended for supporting, preservation, sustainable use, protection and improvement of the environment, especially for:

- encouragement of cleaner production;
- substitution of fossil fuels use with natural gas, biological fuels and other types of environmentally acceptable fuels,
- improvement of environmental monitoring and state of the environment assessment and introduction of environmental management system;
- encouragement of sustainable use of natural resources;
- encouragement of achievement of environmental standards in the course of economic activities performance; and
- encouragement of educational, research and development studies, programmes, projects and other related activities for environment and nature protection and improvement.

The funds of the Annual Investment Programme are provided from a set of environmental charges being stipulated in the Law on the Environment. Presently, there are 3,5 mill. Euro made available for a Call for proposals based on Annual Investment Programmes being issued by the Ministry of Environment and Physical Planning and approved by the Government. Most of funds are used in project preparation and investments for small-sized communal infrastructure, while eco-innovation is seldom supported due to the lack of interest of project beneficiaries and the associated risks.

International Treaties and National Strategies and Plans relevant to Sustainable Energy

The applicable strategies and plans include the National Strategy for Renewable Energy Sources (RES) (2008); National development plan 2007-2009 on improving investment climate for construction of new energy capacities, and for increased use of renewable energy sources; Local Energy efficiency Programmes with action plans (ongoing); First National Communication under the UNFCCC (2004); Second national Communication under UNFCCC (2008); Regular Review 2007, under the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects – PEEREA; National Strategy on Clean Development Mechanism-February 2007; Energy community Treaty – ratified by Macedonia on the 3rd of may 2006; Association Agreement with EU (2001), article 99 – promoting energy efficiency, renewable energy and environmental impact of energy production and consumption; and the Energy efficiency strategy accompanied with implementation plans and technical programme analysis (2004).

Energy sector Legislation

The Energy Law was adopted in 2006, and the secondary legislation for the implementation of the Law in the field of energy efficiency includes: the Regulations for energy efficiency labelling of household appliances (2007); Regulations for energy efficiency of new buildings and reconstruction of existing ones (pending); and Technical specifications and standards for efficient exploitation of fossil fuels (pending).

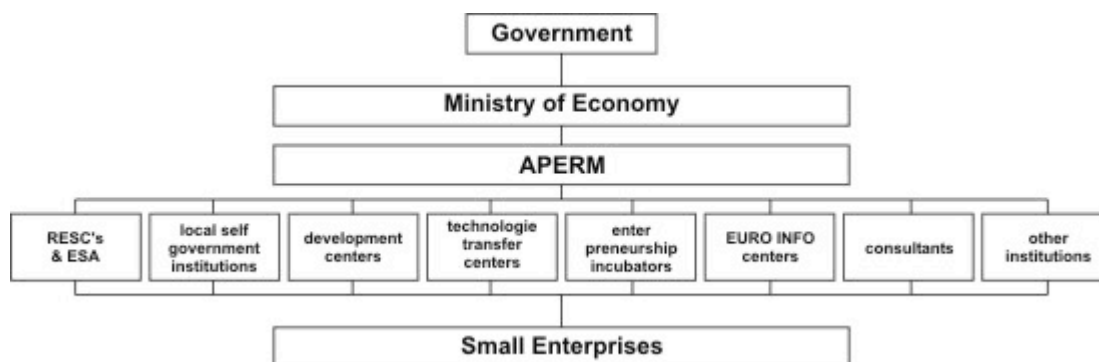
Strategies and Plans relevant for supporting eco-innovations in industry

The applicable strategies and plans include the Program for Development of the Entrepreneurship, Competitiveness and Innovation of SMEs (2007-2010); Strategy for the Industry Policy (draft); National strategy for small and middle-sized businesses (2003); Program for stimulation of investments in the Republic of Macedonia (2003 – 2006); and the Second Program for improvement of investments in Republic of Macedonia (2007-2010).

3.4.2. Institutions and Stakeholders

Agency for Promotion of Entrepreneurship (APERM)

The Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APERM) belongs to the Ministry of Economy. The following figure explains the institutional framework supporting the research and development projects, including the eco-innovations.



Source: APERM

In 2002, APERM signed an Agreement with SBDC (Small Business Development Center from Ljubljana – Slovenia) for realization of the project “Development of SMEs and Entrepreneurship in SE Europe”. The Project was supported by Stability Pact of SE Europe, CEI, Ministry of Economy of Republic of Macedonia and originally consisted of three subprojects: Business co-operation network – BCN; Entrepreneurial Training; and Twinning Actions.

An important national support for the EE and RE investments are the appropriately created incentives, first of all the feed-in (preferential) tariffs for electricity generated from small hydro, wind and biomass power plants adopted by the Energy Regulatory Commission in 2007. In order to stimulate the usage of solar energy in the country the Government established a subsidizing scheme, according to which the Ministry of economy provides repayment in amount of 30% (not more than 300 euro) of costs for the first 500 buyers of solar thermal collector systems, that have them properly installed it in their homes. Next to this is the adoption of the Law on amending the Law on VAT, which anticipates reduction of VAT from 18% to 5% to the thermal solar systems and components.

Macedonian Bank for Development Promotion

The main objective of the bank is to promote export through providing credits and other forms of support: providing support for development of small and medium enterprises by providing investment credits as well as providing insurance of claims based on performed export against short term commercial risk.

European Information & Innovation Centre Macedonia (EIICM)

The EIICM aim is to create new prosperity by attracting highly skilled scientists and engineers as well as the companies which have the potential to innovate and to turn innovation into commercial opportunity. It provides a framework for industry and academia to identify partners world-wide and to co-operate throughout the full innovation cycle. It offers broad-based technology trials and benchmarking, involving a world-wide R&D community, ensuring general applicability of the

technology developed and providing a better understanding of global markets through improved market intelligence.

Foundation for Management and Industrial Research (M.I.R Foundation)

M.I.R Foundation was established in 2002 by SINTEF, a Norwegian foundation for scientific and industrial research. The mission of foundation is to initiate, execute and support scientific and industrial research and development in the area of business development. The mission is implemented by preparing and implementation of projects, expert research activities, training, information collection, programs and restructuring, market research technology and knowledge transfer, and other activities in support of the Macedonian SMEs as well as large companies and entrepreneurship. M.I.R foundation has formed consortium with 3 local institutions and the consortium has been awarded the first project from the European Commission program CIP (Competitiveness and Innovation Framework Programme) for establishment of the European Information and Innovation Centre in Macedonia (EIICM). The consortium coordinator is The University "St. Cyril and Methodius" from Skopje, whereas M.I.R Foundation, Agency for Promotion of Entrepreneurship of the Republic of Macedonia, and Economic Chamber of Macedonia are consortium members.

National Cleaner Production Centre (NCPC) Macedonia

The Headquarters of the National Cleaner Production Centre (NCPC) Macedonia is at the Department of Mechanical Engineering of the University of St. Cyril and Methodius, Skopje, R. Macedonia, which is the host institution of the Centre. The activities of the NCPC Macedonia in coordination of UNIDO and financially supported by the Federal Ministry for European and International Affairs of Austria. They are crucial to the harmonization of the Republic of Macedonia to the EU laws and standards. UNIDO supports the active role of the NCPC Macedonia in implementation of the CP technologies in Macedonian companies. The first group of national experts (NE) started their training in fall 2007. These are experts from different fields, mechanical engineering, chemical engineering, electrical engineering, technology, metallurgy, pharmacy, ecology, agriculture, textile-leather industry, and all will be trained to become national experts for cleaner production certified by UNIDO. After certification these experts will perform trainings for employees and teams in companies where they will work all together for successful implementation of cleaner production. This process is also expected to help the companies in preparing IPPC documentation. In every company, there are two to three representatives from the NCPC in addition to the team of the company. According the UNIDO rules, the license that the trainers (experts) gain from the training lasts for two years, and the renewal of the license is subject to the number and quality of cleaner projects performed in the meantime.

NGO Sector

Several important NGOs are currently active in the area of eco-innovation, as follows. The mission of Macedonian Centre for Energy Efficiency (MACEF) is to engage energy efficiency on national level through cooperation with governmental institutions, engineers, donors and environmentalists. OPM (the Consumers Organization of Macedonia) is the primary advocate for consumer issues in Macedonia. OPM has affiliated experts familiar with both the regulatory and technical aspects of energy efficiency programming and has prepared and disseminated materials regarding home insulation and the use of more efficient consumer appliances. From March 2006, NGO Proaktiva is implementing the project titled Energy Efficient Municipality applying the principals of energy efficiency, energy savings and renewable energy. The project is implemented in a closed frame, on the local level witch can produce measurable results of the project influence. Project is funded by GEF Small Grants Programme and the Government of the Kingdom of Norway.

International Financing Mechanisms and Programs

European Commission: the CIP Programme

From January 2008, Macedonia officially started with the implementation of the Competitiveness and Innovation Framework Programme (CIP) for the period 2007-2013. The planning budget for the programme is 3.6 million €. The main objective of CIP is to encourage the competitiveness of European enterprises. With small and medium size enterprises (SMEs) as its main target, the programme support innovation activities (including eco-innovation), provides better access to finance and delivers business support service in the region. It aims at encouraging a better take up and use of information and communication technologies (ICT) and help to develop the information society, as well as promoting an increased application of energy efficiency and renewable energies.

The CIP is divided into three operational programmes:

1. Entrepreneurship and Innovation Programme (EIP)
2. Information Communication Technologies Policy support Programme (ICT PSP)
3. Intelligent Energy Europe (IEE)

The main characteristic of CIP is promoting cooperation between small and medium size enterprises, government institutions and NGOs. As mentioned above, the co-financing of the projects is conditioned by cooperation on the project through the consortium. The permanent members of the consortium are the University “St. Cyril and Methodius” from Skopje, the Foundation for entrepreneurship and management, Macedonian Chamber of Commerce, and the Agency for entrepreneurship and competition.

Other International Mechanisms

Energy efficiency and renewable energy support projects were financed through different international and bilateral donor organizations such as: international cooperation, such as: Netherlands, through PSO Programme (3 mil euro); Austria, through the Austrian Development Agency, for projects for efficient use of geothermal energy, and use of solar thermal energy (1.12 mil EURO); Switzerland, through SECO, for realization the Energy Efficient Distribution project (1.21 mil CHF); USAID, which provided support preparation of the Energy Efficiency Strategy of the Republic of Macedonia until 2020; EBRD, through the support provided for the power sector reform and through support for some industrial energy efficiency projects; Global Environmental Facility (GEF) – Sustainable Energy project in Macedonia (2007-2010) grant 5.5 mil USD through the WB as an implementing agency.

3.5. Montenegro

Having in mind that Montenegro is a developing country in the process of a comprehensive reform, the drafting of essential national strategies, plans and legislation is still on-going. The majority of these strategic documents are stemming from the international commitments of Montenegro including regional and international initiatives and conventions and approximation to EU.

3.5.1. Relevant Strategies, Plans, Legislation, Institutions and Stakeholders

Among the adapted strategic documents are the National Strategy for Sustainable Development, National Programme for Integration into the EU, Waste Master Plan and Energy Efficiency Strategy. Legal regulations that are harmonised with *acquis communautaire* include the Law on Integrated Pollution Prevention and Control, Waste Management Act and Energy Law. Apart from the new Environmental Law, Energy Development Strategy of Montenegro and Energy Policy, national strategies and policies for innovations, forestry and agriculture have been drafted.

Two international agreements signed by Montenegro triggered changes in the environmental sector. Ratification of the Kyoto Protocol enabled Montenegro to become a competitive host of Clean Development Mechanism projects, while participating in the Energy Community of South East Europe highlighted obligations of the use of renewable energy and raised awareness on energy efficiency in Montenegro.

National Strategy for Sustainable Development (NSSD)

Priorities of the NSSD section on energy (NSSD, section 5.1.2) include the more efficient use of electricity and reduction in energy dependence on imported energy resources with an emphasis on renewable sources of energy. This section of the strategy defines a target of 10% increase in energy efficiency by 2010, compared to 2005. Measures to improve energy efficiency include: reduction in energy losses, implementation of the Energy Efficiency Strategy through the annual action plans, establishment of the Energy Efficiency Fund, and promotion, implementation and provision of incentives for the projects that will increase energy efficiency. To increase the share of renewable energy sources in Montenegro, the strategy of energy sector development should be adapted and national regulations should be harmonised with relevant EU legislation. A more efficient institutional, financial and regulatory framework is needed to achieve sustainable development goals in Montenegro.

In the section on industry (NSSD, section 5.1.7) it is stated that one of the priority tasks is the improvement of industry's environmental performance. The law on integrated prevention and pollution control (IPPC) needs to be applied effectively and the market based instruments need to be strengthened. It is also necessary to put in place incentives for investments in clean technologies and for energy efficiency in industry (e.g. to encourage rational use of water). Special attention is given to strengthening the partnerships and instruments that are based on voluntary principle such as EMAS, eco-labelling, etc.

A priority NSSD task in the field of new technologies (NSSD, section 5.1.8) includes support for research, development and innovations. Measures to achieve this goal include preparation of the Strategy for Research and Development, creation of economic instruments that would provide incentives for research, and provision of technical assistance in the initial phases of developing and using new technologies. The main tasks set by the new legislative and strategic framework for waste management (NSSD, section 5.2.10) in Montenegro include waste reduction, waste separation, adequate disposal and recycling in order to reduce waste pollution and preserve the resource base.

National Program for Integration into the EU

The National Program for Integration into the EU is designed for the 2008-2012 period. Section 3.15.3 on energy efficiency and renewable energy sources addresses the need for the Energy Efficiency Strategy to be updated and harmonised with the Energy Development Strategy by 2025, National Strategy of Sustainable Development of Montenegro and new EU documents in the field of energy efficiency (Directive 2006/32/EC on the promotion of end-use efficiency and energy services, Action Plan for Energy Efficiency etc.). The Program (section 6.8) proposes the establishment of a national level recycling system for with the following components:

- Municipal waste separation;
- Provision of a decentralised recycling island system with sufficient coverage in urban and rural areas;
- Provision of centralized civic amenity sites (CAS) located in every municipality, comprising 24 units in the country;
- Establishment of 8 inter-municipal catchments areas with one sanitary landfill in each; and
- Inter-municipal cooperation agreements regarding joint operation of the inter-municipal landfills and utilization of vehicles for collection and transport of recyclables.

Energy Community of South East Europe Treaty (ECSEE Treaty)

The Energy Community of South East Europe Treaty is made for SEE countries, candidates or potential candidates for accession to EU, which are by this Treaty obliged to respect *acquis communautaire* related to Energy. From the point of view related to this background study, Section V of the Treaty on the Acquis for Renewables, obliges contracting parties to produce plans for implementation of Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market and Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels for transport.

Strategic Master Plan for Waste Management

Strategic Master Plan for Waste Management has envisaged a construction of 7 regional sanitary landfills for the entire territory of Montenegro. At the beginning of 2008, there was only one landfill in Montenegro where the waste collected from territories of local self-government units of Podgorica and Danilovgrad has been disposed properly. The remaining six envisaged regional sanitary landfills are planned to be constructed and six inter-municipal enterprises established for managing these landfills. The projects for these regional landfills have recycling components. Activities on the construction of regional recycling centre on the existing landfill in Podgorica are undergoing, with the capacity of 90,000 t/year of unselected communal waste.

Energy Efficiency Strategy

The Energy Efficiency Strategy stipulates establishing an institutional mechanism (Energy Efficiency Fund) which would provide resources for EE projects and programs. The Fund will also promote projects and measures for renewable energy sources development in Montenegro.

Energy Efficiency Law (Draft)

The draft Energy Efficiency Law, that is to be passed soon, has a provision for establishing the energy efficiency fund and an institution that would take a lead on energy efficiency activities. The Law will also reflect key provision of the Directive 2006/32/EC. The ongoing activities for strengthening the capacities of Montenegrin Energy Efficiency Unit within the Ministry for Economic Development will continue during this period. The activities of gradual adaptation and development of the legislative, regulatory and institutional framework for energy efficient buildings should start soon. For that purpose, it is planned that the concepts and provisions on energy efficiency will be introduced as amendments to the existing Law on Construction of Buildings (according to the Directive 2002/91/EC).

Law on Integrated Pollution Prevention and Control (IPPC)

Although the law has been adapted in 2005, its application started only at the beginning of 2008. During 2007, the following Decrees have been adapted:

- Decree on types of activities and installations for which an integrated permit is issued;
- Decree on Criteria for Determining Best Available Techniques, for application of quality standards, as well as for determining emission limit values in the integrated permit;
- Decree on Content of the Program of Measures for Adjustment to Prescribed Requirements of the Operation of existing Installation or Activities

According to art 31 of the Law on IPPC, the operators have a transition period for obtaining IPPC permit until January 1, 2015. This is seen as a driver for eco-innovation and implementation of technologies in the domain of cleaner production and energy efficiency.

Law on Nature Protection

The Law on the Environmental Protection (Sl. List Crne Gore, bb. 51/08) Adapted in 2008¹⁰ stipulates the establishment of the Regulatory Environmental Protection Agency. Additionally, this Law defines provisions for the transposition of the EMAS Regulation (Regulation number 761/2001 of the European Parliament and of the Council allowing Voluntary Participation by Organizations in a Community Eco-management and Audit Scheme), SEVESO II Directive (31996L0082 on the Control of Major-accident Hazards Involving Dangerous Substances) and Eco-label Regulation (Regulation number 1980/2000 of the European Parliament and of the Council on a Revised Community Eco-label Award Scheme). Secondary regulations are expected to be adopted during 2009 (2nd/3rd quarter) and harmonized with the EU legislation and standards.

Waste Management Law

The Law on Waste Management was adopted in 2005, but its implementation started only in November 2008. The Law envisages the obligation for enterprises and institutions to devise waste management plans. The transition period for this is three years (starting from November 2009). The need to prepare waste management plans will have an implication on providing more business opportunities for eco-industries and consulting companies in developing such plans and introducing technological measures for a wide variety of clients.

Energy Development Strategy of Montenegro

The Energy Development Strategy of Montenegro (EDSM 2008-2025) envisages innovations in the energy sector, planning for future reliable energy supply, more efficient use of energy and promoting renewable energy sources. Technological innovations in efficient energy consumption need to become one of the basic programmes in the industry sector (EDSM, section 10.9). The use of energy labels may help in increasing the scope of research and technological innovations in the industry. Energy labelling for buildings will, in addition to heating regulations, contribute to the technological development in the areas of insulation techniques and installations in construction. However, adequate legislation on promoting EE and RE, and energy labelling is still lacking.

Energy Policy

The Energy Policy of Montenegro identifies goals and objectives, as well as the instruments aimed at developing the energy sector that would secure reliable power supply, environmental protection, ownership, market operation, investments, energy efficiency, new renewable resources, regional and broader integrations, social protection measures etc. In line with the economic development of the Republic of Montenegro, and with the EU legislation, the Energy Policy outlines the need to establish an adequate legal, institutional, financial and regulatory framework required for sustainable energy sector development.

Energy Law

The Energy Law defines the basic principles for the implementation of energy strategy and energy policy in Montenegro. Renewable energy and energy efficiency are covered in Chapter VII, however, the law is lacking specific provisions for supporting RE and EE projects.

¹⁰ Zakon o zastiti prirode, "Sl. list Crne Gore", br. 51/08 od 22.08.2008, 21/09 od 20.03.2009
<http://epa.org.me/images/dokumenti/Zakon%20o%20zastiti%20prirode%2051-08,%2021-09.pdf>

National Policy for Innovation and Research (Draft)

Among priority activities of the Policy, innovation and research in the environmental and energy sectors are on the top of the priority activities list. Short-term activities in the period 2008-2010 specified in the section 6.2.5 (Technological Development and Innovations) of the Policy are the following:

- Allocation of funds for co-financing of scientific research projects related to technological development and innovation; and
- Establishing the rules for granting those funds, so that budgetary funds could cover maximum of 50% of expenses; according to the priorities defined in the Strategy.

3.5.2. Institutions and Stakeholders

Scientific research and innovations are supported through the Ministry of Science and Education. Section 3 of the National Innovation and Research Policy, describes institutional framework for development of scientific research. In terms of use of renewable sources of energy and improving energy efficiency, as explained above, Montenegro obliged itself through the ECSEE Treaty to respect European norms. Therefore the use of renewable energy sources has to be regulated by law, especially use of hydropower through strong promotion of small hydropower plants. It also stipulates opening of the electricity market and access of the third parties to the electricity network. This means that entrepreneurs and enterprises, both foreign and domestic can apply for concessions and licenses to provide public services (Law on participation of private sector in providing public services (OG 30/2002) that is, to produce energy and sell it to the network.

Currently, the key actors participating in the process of approving and licensing of such projects are:

- Government of the Republic of Montenegro;
- Ministry of Tourism and Environmental Protection;
- Ministry of Economic Development, Ministry of Agriculture, Forestry and Water Management;
- Regulatory Energy Agency;
- Electric Power Company of Montenegro - EPCG (also the network operator); and
- authorized bodies of local governments.

Energy Regulatory Agency

The main role in this process is played by Energy Regulatory Agency, which in compliance with the Energy law, provides licenses, set prices and performs other regulatory functions in this field. It is worth to mention that participation of Montenegro in the Clean Development Mechanism under the Kyoto Protocol can also bring innovations in this sector since quite big number of CDM projects is in the energy supply and demand sector.

Ministry of Economic Development, Energy Efficiency Unit

In accordance to the Energy Efficiency Strategy, the Energy Efficiency Unit within the Ministry of Economic Development which is making steps to develop into an Energy Efficiency Agency or a body with a similar status in order to play a leading role. So far, the unit is applying projects in EE in the public sector only.

Institutions Relevant for Recycling, Cleaner Production and IPPC

For the time being, competent bodies in charge for issuing permits in accordance with the Law on Integrated Environmental Pollution Prevention and Control are:

- Ministry of Tourism and Environmental Protection – larger installations
- Local administration in charge for environmental protection affairs – smaller installations

The Agency for Environment Protection, which shall be established according to the new Law on Environment Protection, will take over regulatory roles in this field.

Cleaner production in agricultural sector is promoted through valorizing of organic farming, while in the tourism sector which is very important sector of Montenegrin economy there is a quite strong commitment to strategic approach to the sustainable solutions.

Recycling is elaborated through the Waste Management Master Plan and Waste Management Act. According to those documents, local authorities in charge of management of municipal waste are obliged to provide for selective waste collection and waste disposal on sanitary landfills as a starting point of implementation of the Recycling Strategy. Owner of electronic waste is obliged by the Waste Management Act to organize its recycling.

3.6. Serbia

3.6.1. Relevant Strategic, Planning and Legal Documents

Strategy (2008-2013) and Action Plan (2009) for Competitive and Innovative SMEs

The Strategy for competitive and innovative SMEs was prepared by the Ministry of Economy and Regional Development (MoERD) adopted in October 2008, with an aim to create a supportive and efficient environment for SMEs. The Strategy is harmonized completely with the EC's "Small Businesses Act" for Europe. It envisages start up loans, education and training for SMEs, development of multiple funding sources for SMEs, and completing the necessary institutional, legal and business framework for SMEs. The Strategy will facilitate transformation of micro enterprises into SMEs, creation of new SMEs, and their quicker growth in the first years of operation, increase exports, and facilitate a more balanced regional development. The Action Plan for 2009 was adopted in February 2009, and it elaborates necessary legislation and taxation updates which should be carried out during 2009, as well as financing activities from national and foreign sources.

National Sustainable Development Strategy (NSDS, draft)

According to NSDS, one of the most important national priorities of sustainable development of the Republic of Serbia is protection and promotion of the environment and achieving rational use of natural resources. This considers: investing in reduced pollution of the environment and development of cleaner technologies; reducing the high energy intensity of the Serbian economy and provide for a more efficient use of fossil fuels; and promoting the use of renewable energy sources.

The current degree of utilization of renewable energy sources is very low, with the exception of using the major water courses in hydro-power plants (HPP), as costs associated with the use of renewable energy sources are significantly higher than those associated with conventional energy sources. The energy potential of renewable sources of energy in Serbia is about 25% of annual consumption of primary energy. The biomass potential is about 63 – 80 percent of total RE potential. There is also

potential in existing geothermal springs, wind energy and solar energy, but biomass energy is estimated as the biggest renewable energy potential in the country.

The identified problems in using RE identified in the Strategy are the following: bad spatial distribution of water, inadequate infrastructure for the use of renewable energy sources, incomplete legislative framework for promotion of the use of renewable energy sources, lack of reliable data regarding potentials of renewable energy sources, lack of efficient system of financial incentive instruments aimed at massive use of renewable energy sources.

The relevant sectoral objectives of the Strategy are:

- Intensify the research of potentials of renewable energy sources for the purpose of their verification and identification of realistic balances;
- Identify technologies that would justify the implementation of incentives and undertake a comparative analysis of possible incentive measures;
- Adopt regulation for promotion of use of renewable energy sources (tax incentives, stimulus prices of energy from renewable sources); and
- To increase the level of use of renewable energy sources.

National Environmental Protection Programme (NEAP)

The National Environmental Protection Programme is created for the period of ten years with a view to develop modern environmental policies in Republic of Serbia. The NEAP is followed by action plans which are detailed plans for implementation this program in next five years. Program is also in accordance with Serbian EU accession. The main goals of the NEAP, relevant for eco-innovation are those related to waste management as follows:

- Harmonization of the national regulations with EU legislative
- Developing regional waste management plans
- Promoting waste reuse as alternative fuel
- Sanitation of existing dumpsites as one of the biggest threats for environment
- Strengthen professional and institutional capacities in hazardous waste management

Energy Sector Development Strategy of the Republic of Serbia up to Year 2015

The priority of Energy Sector Development Strategy of the Republic of Serbia is the rational use of quality energy sources through increasing energy efficiency in production, distribution, and usage. Energy Sector Development Strategy up to year 2015 recommends measures and instruments for achieving this goal. The Strategy envisages preparation of new harmonised technical legal acts, bylaws, and standards for energy technologies/activities and constitution of special instruments for stimulating activities for rational and efficient using of energy, including formation of the body for tracking and controlling the processes of energy sector reform.

The Strategy stipulates instigation of strategic initiatives in domain of investments in new energy sources/technologies end energy efficient appliances/equipment for using energy, and Measures for financing stimulus for private investments in economically effective programs/projects for energy efficiency and selectively using of new renewable energy sources, including Measures for establishing National Fund for mentioned programs/projects.

According to our survey, the Energy Sector Development Strategy does not put enough emphasis on EE and RE, and it should be updated. The Ministry of Mining and Energy is currently drafting a new version of the Strategy.

Cleaner Production Strategy (draft)

The Ministry of Environmental Protection and the Faculty of Technology and Metallurgy in Belgrade finished the draft of the strategy of Cleaner production in Serbia. This strategy should influence Serbian industry to introduce cleaner technologies. Companies which apply cleaner technologies will save money through reducing spending, improving operations in terms of raw material treatment, reducing spending on waste disposal, energy efficiency, reducing environmental pollution. This strategy represents operative elaboration of Sustainable development strategy of the Republic of Serbia, in the part related to production processes, products and services with the aim to increase overall efficiency and reducing the risk to human health and the environment. The proposal of the Strategy has been sent to the Government for approval.

Law on Environmental protection (2004)

This framework law regulates the integral system of environmental protection which shall ensure human right to live and develop in healthy environment as well as balanced economy growth and protection of the environment in the Republic. This Law anticipates stimulations for applying technologies which are environmentally friendlier than others, and also technologies which use renewable energy. This includes exemptions on taxes, customs and other duties, provided under the terms and conditions of special law (Law on Tariffs), for recycling activities and other activities that reduce negative environmental impacts.

Chapter VI refers to the Economic Instruments. In accordance with this Law, Fund for Environmental protection shall be established, and both budgetary financing and international financial assistance (international organizations, financial institutions and bodies) shall be carried out within the activities of the Fund. The Fund shall carry out activities in relation to financing the preparation of implementation and development of programs, projects and other activities in the area of preservation, sustainable use, protection and advancement of the environment, as well as in the area of energetic efficiency and use of renewable energy sources. Fund should keep database on programs, projects and other activities in the area of environmental protection and energy efficiency, as well as on necessary and available financial means for their realization. Fund is also responsible for establishment and realization of co-operation with international and domestic financial institutions and other legal and natural entities in order to finance environmental protection and energy efficiency in accordance with the National program and other strategic plans and programs and concluded international agreements for the purposes determined by this Law.

The revenues of the Fund shall be realized on the basis of international bilateral and multilateral co-operation on programs, projects and other activities in the area of environmental protection and energy efficiency. The Fund's finances shall be used for financing action and rehabilitation plans in accordance with the National program, and in relation to eco innovations that means financing: recycling and waste re-use, incentives for cleaner production and application of best available techniques for operation of facilities and activities performance; technology which shall reduce pollution of the environment; incentives for use of renewable energy sources and increased energy efficiency; incentives for sustainable economy activities, namely sustainable economy development.

Law on integrated environmental pollution prevention and control – IPPC (2004)

The law on IPPC provides indirect incentives for developing and applying technologies for cleaner production and recycling. This Law regulates the conditions and procedures of granting of integrated

permits for installations and activities that may have adverse effects on human health, environment or material resources, types of activities and installations, supervision and other issues that are of relevance for environmental pollution prevention and control.

This Law defines conditions for application for integrated permit. Among other documents that need to be submitted with the application. Are the documents that prove that the best available techniques are implemented or planned to be implemented by the operator of a new or the existing installation in order to prevent or reduce pollution. The operator should also ensure that proposed technology will include measures for efficient energy consumption. The applicant should also submit the plan of measures for the efficient energy consumption. The IPPC permit has to contain conditions relating to implementation of the best available techniques or other technical requirements and measures, and also measures relating to the efficient energy consumption.

Energy Law (2004)

The Energy Law regulates energy policy objectives and the method of its implementation, energy market organization and functioning, conditions for regular and high quality consumer energy supply and for ensuring safe, reliable and efficient energy production, management of energy transmission, transportation and distribution systems and the method of securing the smooth functioning and development of these systems, the conditions for and method of carrying out energy activities, as well as energy efficiency and environmental protection conditions in carrying out energy activities.

In accordance with this Law, the generation of electrical power shall include production in hydro-electric power plants, thermal power plants, combined heat and electric-power plants and renewable energy or waste electric -power plants. Those electrical power producers who in their electrical power generation process use renewable energy sources or waste, those who generate electrical power in electric-power plants considered as small electric-power plants within the meaning of this Law, as well as those who simultaneously generate electrical power and heat, provided they meet energy efficiency criteria shall be privileged electrical power producers. Privileged heat producers shall be producers using renewable energy sources or waste in the heat production process who thus meet the energy efficiency conditions.

The Law stipulates forming National Fund for Energy Efficiency, which has not been created yet. The Law also defines the Serbian Energy Efficiency Agency (SEEA) as a special organization for carrying out professional activities of improving conditions and measures for energy and energy sources rational use and saving, as well as increasing efficiency of energy use within all sectors of energy consumption. The Agency exists since 2004 and more information is available in the next section on institutions.

The Law on Energy efficiency (Draft)

The Law on the Rational Use of Energy is in the preparing phase by a working group that consists of MoME, MoESP, and SEEA, however the draft has not been submitted for public comments yet.

Waste management law (Draft)

The main aim of the Waste Management Law relevant for eco-innovation and technology is to provide the conditions for waste separation, reuse, recycling and reusing waste as energy source. Products producers have obligation to use technologies and develop production in a way which assures rational use of natural resources, materials and energy, to instigate reuse and recycling the products and packaging, and at the end of life cycle they should promote ecologically sustainable management of natural resources. Electric and electronic waste (WEEE) management is also defined by this law. In Waste vehicles management, person responsible for waste vehicles treatment have to secure treatment of waste vehicles and disposal of parts which can not be recycled. When this Law becomes

adopted, the Recycling Agency of the republic of Serbia will not exist any more. All tasks, subjects, archive and other documentation of recycling Agency and all equipment and facilities will be taken by the MoESP. The Law on packaging and packaging waste is also in the drafting phase and it will provide incentives for eco-innovation and application of eco-technologies in packaging and packaging waste minimisation.

3.6.2. Institutions and Stakeholders

Ministry of Environmental Protection and Spatial Planning (MoESP)

The Ministry of Environmental Protection and Spatial Planning is responsible for developing and maintaining the system of protection and sustainable use of natural resources, and producing relevant strategic documents, plans and programs. Currently it does not have a major role in supporting and financing eco-innovation projects. The support is limited to providing technical assistance for waste management projects, some of which do have a recycling component.

Fund for Environmental Protection (FEP)

In Serbia, one of the main domestic sources of financing environmental protection is the Fund for Environmental Protection (FEP). The scope of the Fund covers development and implementation of the programmes and projects in the field of environmental protection, sustainable use of natural resources, environmental infrastructure, energy efficiency and renewable energy (FEP, Institutional Profile, 2008). In practice, the FEP finances mostly projects in the waste sector (and some in the air sector) while the water sector projects are funded by the Water Directorate (WD) that belongs to the Ministry of Agriculture Forestry and Water Management (MAFWM).

Since 2006, FEP has been allocating grants for the project documentation preparation related to the sanitation, recultivation and closure of existing landfills. Since 2007 there has been financing of actual construction of regional landfills, some of which contain a recycling centre component. In 2007, the Serbian FEP disbursed a total of EUR 2 million entirely for the waste sector directed to the preparation of the project documentation and actual construction of the 1st phase of the Regional Waste Landfill in Prokuplje and sanitation of seven municipal landfills. For 2008, the Serbian FEP disbursed EUR 17.4 million in total. Out of that sum, EUR 9.4 million (54%) is dedicated to the waste sector. For the air protection sector, a total of EUR 0.77 million (13.5%) is allocated. In 2009, the Serbian FEP secured a total of EUR 15 million, entirely for the waste sector (REC, PEIP Serbia Analytical Report 2009).

The FEP will change its structure once the new Law on FEP will be adopted. The revenues of the Fund currently include: revenues from nature and resource use, pollution charges, a portion of funds resulting from privatisation, funds from multilateral and bilateral programmes, projects and other activities in the field of environmental protection and energy efficiency, reinvested income and revenues of the fund, contributions, donations and grants. Funds assets are granted through loans, guarantees, direct grants and interest rate subsidies of commercial loans (FEP, Institutional Profile, 2008). Currently 70-80% of funds are allocated through grants. In future it is planned to increase the share of loans. In 2006, the amount from charges directed to the Environmental Fund was about 0.02% of GDP. So it is evident that with the current low revenues from charges, the EPF is not able to provide significant amount of money or support to the projects eligible for financing, such as those on environmental protection, energy efficiency and renewable energy.

Ministry of Science

The Ministry of Science is responsible for supporting science and technological development. The Ministry's department for Technological Development, Transfer of Technologies and Innovation System coordinates development solutions in several fields, including energy technology and RE and EE in particular. The Ministry has carried out the National Energy Efficiency Programme that had the aim to stimulate research and technology development projects in the field of RE and EE. This Programme will be discussed further in the Regional Study on Financing Eco-innovation in SEE.

Ministry of Economy and Regional Development and the Agency for SMEs

The Republic Agency for SMEs and entrepreneurship established by the Law on Agency for the development of small and medium enterprises ("Official Gazette of RS, no. 65, of 23/11/2001) within the Ministry of Economy and Regional Development (MoERD). The Agency was established with the primary aim to support the interests and development of the SME sector, which should contribute to balancing the economic structure, accelerate economic development and revival of economic flows in the country. The Agency supports the creation of enabling environment for growth and development of SMEs; participates in the development of republic and the creation of institutional rules (market) infrastructure for the establishment and development of SMEs; directs non-financial support to SME sector (consulting, information, connectivity, and facilitating access to funding sources); prepares and implements educational programs for entrepreneurs and managers of SMEs; coordinates the Republican network of regional agencies and centers; and assists SMEs in the field of new technologies and support their innovative activities (creating links between research and development sector, universities and SME sectors).

Cleaner Production Centre (CPC)

The Cleaner Production Centre of Serbia was established in 2007 on the Faculty of Technology and Metallurgy in Belgrade (within the scope of UNIDO project). The aim of the centre is to educate at least 50 local experts in applying cleaner production concept, and to train the same number of industrial companies which should apply cleaner production principles in their further work. The Cleaner Production Centre of Serbia works will fully support of Government of Serbia and its members of Advisory Board are high representatives of: Ministry of Environment and Spatial Planning, Ministry of Mining and Energy, Ministry of Finance, Ministry of Economy and Regional Development, Office of the Deputy Prime-Minister of the Government, OEBS Mission in Serbia, University of Belgrade, Serbian Chamber of Commerce. The mission is to promote CP concept in Serbian companies, and to raise awareness of importance of sustainable development and cleaner production as a way of achieving that goal and to increase capacities for introduction of CP in national industry.

Serbian Energy Efficiency Agency (SEEA)

The Energy Efficiency Agency carries out activities related to drafting proposals for incentive measures aimed at enhancing energy efficiency in the drafting of the Energy Development Strategy; drafting and proposing programmes and measures for stimulating rational and efficient energy use and monitoring their implementation; drafting proposals for implementing energy efficiency, renewable energy sources exploitation and environmental protection; drafting and proposing technical and other regulations for increasing energy efficiency; drafting criteria for equipment efficiency evaluation in use of energy and method of marking them in line with adequate international regulations and standards; providing financial and technical support in the preparation and implementation of priority energy efficiency projects; consultative, advisory and educational activities in promoting energy efficiency; and other activities in compliance with the law. The Energy Efficiency Agency has about twenty employees, which is according to the interviews, not enough to carry on successfully all

activities. Financial support assured from national budget is also insufficient. Agency is nonprofit organization, and it can not provide financial support for other organizations or projects, it can only provide technical assistance and channel external funds. The technical assistance includes drafting projects, regulations, programs; organization of trainings, workshops, in accordance with Energy Sector Development Strategy. Agency currently covers all segments of Energy Efficiency sector except for EE in the transport sector. The Agency cooperates with four Regional Energy Efficiency Centers (in Novi Sad, Kragujevac, Nis, and Belgrade) The financial sources included so far the national budget, European Union through the European Agency for Reconstruction, IFI loans and grants (WB, EBRD, KfW), bilateral grants from individual countries, and in some cases, commercial loans.

International Organisations and Programmes in Serbia

European Agency for Reconstruction (EAR)

The European Agency for Reconstruction had an important role in establishing and supporting the Serbian Energy Efficiency Agency (SEEA). In the Republic of Serbia, the European Agency for Reconstruction manages a cumulative portfolio of some €1.3 billion worth of European Union funds, 90% of which has been contracted as of February 2008.

The European Bank for Reconstruction and Development EBRD

The EBRD is the largest single investor in the region and it mobilizes significant foreign direct investment beyond its own financing. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatization, restructuring state-owned firms and improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment. The EBRD is unique among multilateral financial institutions in that it has had an environmental mandate since its inception. The mandate commits the Bank to finance projects that are environmentally sound and sustainable. 'Environment' is defined by the Bank in its broadest sense to encompass not only ecological impacts but also worker, health, safety and community issues. To promote environmentally sound and sustainable development, the Bank pursues four main strategies: integrating environmental considerations into every project; promoting environmentally oriented investments across all sectors; Incorporating the environmental mandate in all sector and country strategies; and building partnerships to address regional and global environmental issues.

European Union: CIP and EIP programmes

It is expected that Serbia will sign an MoU with EC on participation in CIP and EIP programmes during 2009.

German Development Bank (KfW)

The German Development Bank finances investments and consulting services in developing and transition countries. KfW activities in Serbia are focused on construction and rehabilitation of infrastructure, the creation of effective financial institutions, safeguarding resources and environmental protection. Commitments for financial cooperation with Serbia are around 550mil eur, of which 350mil Eur for energy sector, 112 mil eur for financial sector, and 88 mil Eur for the water supply sector. The two most important projects financed by KfW in the sustainable energy sector are

the Rehabilitation of District Heating Systems in Serbia, and Application of Environmental Measures in Thermal-electric Power Plants.

The Rehabilitation of District Heating Systems in Serbia project was launched in 2001 in cooperation with Serbian Ministry for Mining and Energy, and is still ongoing. German Government and KfW contributions to the project have reached 40 mil Eur in loans and grants. The first two phases were financed by a German government donation of 16 mil Eur. The cities' own contributions totalled 7mil co-financing. The third phase is worth 27.5 mil Eur. The KfW will grant a soft loan of 20mil, and the Serbian Government with a 5.5mil contribution as a part of a debt conversion deal with the German federal government (Debt for Nature Swap). Additional 2 mil Eur from the donation are used for consulting services. The project had the objective of providing sustainable and efficient heat generation and distribution, as well as efficient energy utilization by costumers. The programme covers about 345 000 households and about 21 000 industrial costumers, which is about 86% of all district heating users in Serbia. Efficient management of the heating plants should increase EE and improve environmental protection. In the first two phases some parts of district heating systems in Belgrade, Nis and Novi Sad were rehabilitated. Phase 3 will include DHS in Kragujevac, Kraljevo, Sombor, Pirot and Zrenjanin. The project has already resulted in heat loss reduction, increased level of EE which leads to fuel consumption reduction, thus making heating plants more economical. The Application of Environmental Measures in Thermal-electric Power Plants project costs are estimated to reach 56.8mil eur. KfW will make available a soft loan of 46mil eur. The project beneficiary, Electric Power Industry of Serbia (EPS) will contribute with 10 mil eur co-financing from its own funds. The Loan was signed in January 2008. Serbia, as a member of southeast European energy community, has taken upon itself to apply the standards of EU regarding water and air pollution by 2015 and to limit emissions of hazardous particles from the power plants. The project is expected to improve environmental and climate protection, as well as economic growth in Serbia. The performance and efficiency of the boilers in the rehabilitated blocks of the Nikola Tesla A thermal power plant shall improve resulting in a 10% increase of electric power generation per year. CO₂, SO₂, NO_x and dust emissions will decrease by 2%. These actions will make the Nikola Tesla TPP more environmental friendly and more profitable. The quantities of ash caused by dust dispersed in the TPP Kostolac A will be reduced, pollution of surface and ground water will decrease and so will the spillage of polluted water into the Danube.

Institutes, Associations, and NGOs

Energy Efficiency Committee (EEC - SKGO)

The Energy Efficiency committee within the Standing Conference of Towns and Municipalities (SKGO) deals with problems related to energy efficiency, renewable energy sources and enerctics on local level. The committee is dealing with questions related to energy efficiency by forming stands points, giving comments and suggestions to laws, by laws, regulations in this field, and by starting initiatives. Initiatives are usually addressed to Ministry of mining and energy and Ministry of science and environmental protection.

Recan – Fund for Recovery and Recycling of Beverage Cans

The Recan Fund was set up in 2004. The company is a subsidiary of Ball Packaging Europe, one of the leading beverage cans producers in Europe with a regional production facility located in Serbia. Recan currently has branches in Poland, Serbia, Germany and the Netherlands and is planning to extend its activities to other European countries. Currently Recan has recycling centres in Poland, Serbia and Germany. The company is also planning to increase the number of recycling centres for beverage cans in future. The recycling centers cooperate with waste management companies, local scrap metal dealers, supermarkets, shopping centers, petrol stations or other local facilities. The aim is

to provide a tight network of collection points to ensure that consumers have a convenient and problem-free facility to return used beverage cans close at hand. Recan team supports and consults the suppliers regarding logistics and quality specifications, and it offers quality checks in the form of analyses which are made available as documentation.

Institute Mihajlo Pupin (IMP)

Institute Mihailo Pupin (IMP) is the leading Serbian R&D institution in information and communication technologies (ICT), as well as the biggest and the oldest ICT institute in Southeastern Europe. It is located in Belgrade, capital of Serbia. Ever since it was founded in 1946, Institute has been engaged in contract research and application-orientated research on behalf of key utility and transportation companies, government and various vertical industry sectors. Institute Mihailo Pupin provides a wide range of products and services in the high-tech field in applied research, design, development, manufacturing, testing and implementation of professional equipment and systems intended for a wide range of business partners, primarily public utilities companies of the national significance.

Annex List of Relevant Institutions and Contacts in SEE countries

Albania

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Directory of Pollution Prevention Policies

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United Nation Framework Convention on Climate Change

Address:

Ministry of Environment, Forests & Water Management

Climate Change Unit

Rr. Durresit, No. 27

Tirana, Albania

Contact Person(s):

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Program Manager for Climate Change Programme/Unit

E-mail: mirafida@icc-al.org/ermira.fida@undp.org

National Ozone Projection Implementation Unit

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Specialist Gazmend Gjyli

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Ministry of Economy Trade and Energy

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"Zhan D'Ark" Boulevard, Tirana

Phones: 00 355 4 2222245/150

Contact Person(s):

Fation Tugu – Director for energy policies

fatjon_tugu@hotmail.com

General Directorate of Trade Services

General Regulatory Directorate

General Policies Directorate

General Directorate of Supporting Service

Inner Audit Department

Bashkim Sykja - Drejtor i Nxitjes se Biznesit

E-mail bsykja@mete.gov.al

Albanian National Agency of Natural Resources

Address:

Adress: Blloku - Vasil Shanto, Tirana

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Contact Person(s):

Artan LESKOVIKU,
Director of Renewable & Efficiency of Energy
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Chamber of Commerce and Industry**Address:**

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Ministry of Finance**Address:**

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Contact Person(s):**Ministry of Agriculture Food and Consumer Product**

Address: Sheshi Skenderbej Nr.2, Tirane

Phones:

355 04 259333

mobile: 355 (0) 69 20 58466

Contact Person(s): Directory General of Food and Security and Consumers

E-mail valbona.paluka@mbumk.gov.al

Environmental Protection Fund**Address:**

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The United Nation Development Program in Albania

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The International Finance Corporation is a member of the World Bank Group.

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German Development Cooperation

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Albania-EURO Energy Efficiency Centre

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Institute for Habitat Development**Address:**

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IZOTERM Albania**Address:**

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The Republic of Srpska Investment-Development Bank

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European Commission Delegation to Croatia

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PODHRAŠKI Ivana, Voditeljica projekta za ulaganja

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