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Implementing the Green Agenda for the Western Balkans

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Aspen Institute Germany

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FOREWORD

In the Sofia Declaration on the Green Agenda for the Western Balkans (GAWB), agreed upon in November 2020, all six countries of the Western Balkans committed themselves to ambitious environmental and climate goals, structured along five pillars: (1) climate, energy, and mobility; (2) circular economy; (3) depollution; (4) sustainable agriculture and food production; and (5) biodiversity.[1] However, implementation is oftentimes lacking due to the (perceived) financial, economic, and social costs of the transformation processes, diverging interests of societal actors, information gaps among decision-makers, and vested interests.

A green transition, especially in the field of energy, will be inevitable to deal with the climate crisis and its effects, and to ensure future economic development and competitiveness. This is particularly true for the Western Balkans, a region whose cities rank among the most polluted in Europe and which has experienced several draughts, wildfires, and floods in recent years. Furthermore, in case of non-alignment with these goals, the WB economies, which are closely connected with the European Union, would be severely affected by the EU's environmental policies, including for instance the introduction of a Carbon Border Adjustment Mechanism.

The green transformation is a challenge for the Western Balkan societies as a whole. In order to create broad public support for the necessary reforms and to achieve a "just transition" which leaves no one behind, it is crucial to involve and take into consideration the different societal interests and expertise throughout the process. Furthermore, it is important to analyze how the GAWB will affect the economies of the region, how potential negative effects can be mitigated, and how existing obstacles to implementation can be jointly overcome.

To contribute to this effort, the Aspen Institute Germany organized two expert workshops on the Green Agenda for the Western Balkans in 2021, with a particular focus on decarbonization, the most comprehensive pillar of the GAWB. For these workshops, Aspen Germany gathered a diverse group of experts from the Western Balkan countries, including members of think tanks and activist organizations, representatives of the business sector and of trade unions, as well as journalists. Representatives of international organizations as well as the EU and its key member states also joined the discussion. The aim of the workshops was to discuss the specific roles and potential contributions of different actors in the implementation process of the GAWB and to jointly elaborate multi-perspective ideas and policy recommendations for a successful implementation.

This publication contains the key recommendations and input papers developed in the framework of the aforementioned workshops. The workshops were organized in the framework of the project "Aspen Western Balkans Stakeholder Forum 2021," which was kindly supported by the German Federal Foreign Office. All statements of facts and expressions of opinion contained in this publication are the sole responsibility of the author(s) and do not necessarily reflect the position of Aspen Germany or the Federal Foreign Office. We would like to express our gratitude to all workshop participants and, in particular, to all authors of input papers for contributing substantially with their expertise and for providing thought-provoking impulses for discussion and constructive solutions. Finally, we would like to thank Branimir Jovanović, Selma Šehović, and Wouter Zweers for their valuable contributions to the workshops and this publication.

[1] Regional Cooperation Council, *Sofia Declaration on the Green Agenda for the Western Balkans*, (November 2020), The Berlin Process, Information and Resource Centre, https://berlinprocess.info/wp-content/uploads/2021/02/Leaders-Declaration-on-the-Green-Agenda-for-the-WB.pdf (accessed October 15, 2021).

SUMMARY AND KEY RECOMMENDATIONS

The following recommendations for a successful implementation of the Green Agenda for the Western Balkans (GAWB) were developed over the course of two expert workshops, organized in the framework of the project "Aspen Western Balkans Stakeholder Forum 2021," and kindly supported by the German Federal Foreign Office. The workshops primarily focused on decarbonization as the first pillar of the GAWB. Please note that this summary only provides a collection of the points raised by workshop participants. They do not necessarily reflect the position of Aspen Germany or the German Federal Foreign Office on the issues addressed.

The Roles of Governments and Public Authorities

- The awareness among governments and public institutions in the Western Balkans (WB) on the scope and impact of commitments made in the Green Agenda for the Western Balkans as well as the understanding of technical provisions in the GAWB needs to be enhanced.

- Currently, legislation on decarbonization in the WB is drafted mainly with a view towards compliance with the EU *acquis* and/or the Energy Community regulations (if at all), while its prospects for implementation are not seriously assessed. In order to avoid lack of implementation and enforcement, it is necessary to assess the feasibility of certain measures and legislation during the policy-making process.

- Governments perceive the green transition and decarbonization mainly as an obligation imposed by the European Union. The perception of the transition as an opportunity for strengthening economies and societies and for improving citizens' health and living conditions remains low and should be strengthened through research and public campaigns.

- Governments and public institutions in the WB lack knowledge when it comes to policy options, changes in legislation, and strategic planning in the environmental and energy sector. Capacity-development and awareness-raising campaigns for public officials are needed in this regard.

- It is necessary for governments and public authorities to prioritize and mainstream environmental and climate issues contained in the GAWB into all policy areas. Specific funds need to be earmarked for implementing the Green Agenda.

- WB governments need to draft long-term, visionary strategic plans (encompassing the next decades, instead of only a few years) on how to successfully implement the objectives of the GAWB with clear timelines and specific targets. Clear commitments are key in this regard to attract the necessary investments. All relevant stakeholders, including the business community, trade unions, CSOs, think tanks, local communities, international financial institutions, etc., need to be actively engaged in the drafting and implementation of these strategic plans. Governments should also coordinate within the region when designing these plans.

- In order to involve the business sector in its role of promoting and implementing the Green Agenda, governments need to update their industrial policies and create an inducive environment for businesses and investments by setting market incentives. This could be achieved, for instance, through granting subsidies, imposing carbon prices, or providing green bonds. Close cooperation between the public and the private sector as well as with international financial institutions is key in this regard.

- WB countries should join forces in negotiating with the EU on European climate legislation (such as the Carbon Border Adjustment Mechanism (CBAM)) and the introduction of accompanying supportive measures for the WB region. In this endeavor the WB governments should also jointly cooperate with the domestic business sectors.

- To prevent adverse social effects of the green transition, governments should draft "just transition strategies," including social measures for different societal groups, based on an assessment of their relative vulnerability to the transition process.

- Energy markets have to be opened through power purchasing agreements or other instruments. Private investments in renewable energies need to be attracted.

The Roles of CSOs, Think Tanks, and Media

- CSOs should be strongly supported in their task of educating and informing citizens, but also politicians, about the implications of a green transition and about the goals and commitments contained in the Green Agenda for the Western Balkans. To reach the public, CSOs should use simple, understandable messages to communicate with citizens. Air pollution, for instance, is a suitable topic as it is easily observable for citizens and present in people's everyday lives. Specialized online portals and media outlets should be created, with graphic design or other non-conventional types of messages, to generate public interest in the topics of the Green Agenda.

- The key role of media in engaging the population needs to be taken into account. However, at the moment, it is difficult for CSOs to cooperate with the media in their advocacy efforts due to a lack of interest in the mainstream media for green topics, a lack of specialized journalists focusing on environmental issues, and because key information is oftentimes not publicly available. In addition, many outlets across the region lack the political independence for critical and unbiased reporting.[1] Therefore, capacity-building and trainings for journalists focusing on environmental topics should be enhanced. At the same time, representatives of CSOs should increase their efforts in building personal relations and networks with journalists to exchange knowledge and information and to cooperate in awareness-raising campaigns.

- As there is only a small number of CSOs and think tanks working on environmental/climate change topics in the WB region, they should form cross-regional and cross-sectoral alliances of supporters of the Green Agenda for the Western Balkans to strengthen their advocacy efforts.

- CSOs should more actively act as facilitators of constructive dialogue between the different stake-holders (governments, public institutions, citizens, researchers, businesses, trade unions, etc.) to enhance the quality of legislation. There is plenty of knowledge to be exchanged among the different actors, which is why open discussions with all stakeholders need to be organized on a regular basis.

- Objective data on environmental and climate issues needs to be generated as a basis for sound decision-making. Increased scientific research by think tanks from the region is needed to quantify and assess the economic risks and opportunities of decarbonization and the green transition in the Western Balkans, in order for the different actors to be able to adjust their cost-benefit analyses in this regard. A special research focus should be put on the analysis of the vulnerabilities of different economic sectors to decarbonization efforts as a basis to elaborate specific support schemes.

- In order to achieve the goal of a just transition, CSOs should strengthen their efforts in raising awareness about societal consequences, including the risk of energy poverty. Further research regarding groups particularly vulnerable to a green transition is necessary as a basis for strategic plans to prevent social losses.

[1] See also Aspen Germany's recently published paper volume on media freedom in the WB region: Valeska Esch and Viktoria Palm, *Media Freedom in the Western Balkans,* Aspen Institute Germany, (December 2021).

The Role of the Business Sector

- Awareness about the important role of the business sector in decarbonization and implementing the GAWB needs to be strengthened, both among businesses themselves and among policy-makers.

- Businesses in the Western Balkans need to understand the inevitable and urgent need to decarbonize their activities and production processes, as they will otherwise be severely hit by EU climate policies, for instance through a Carbon Border Adjustment Mechanism (CBAM). In this regard, businesses should coordinate their efforts to advocate for a decarbonization of the energy production by their providers, as without low-carbon energy, businesses will have a hard time reducing the carbon footprints of their products and activities.

- Businesses in the region need to start measuring the carbon footprints of different products and production processes in order to be able to manage them in the long term. In case WB economies do not manage to provide low-carbon products, they risk losing international investors and their positions in international supply and value chains in the mid-term.

- Companies in the region should establish networks and build coalitions amongst themselves to jointly advocate for the implementation of the GAWB. In this regard, business associations and chambers of commerce should take a more proactive role in promoting the implementation of the GAWB. The business sector should also increase its cooperation with universities in this context.

- SMEs, in particular, lack financial resources, capacities, and know-how concerning the green transition. Governments should provide special loans, subsidies, and trainings for SMEs to help them manage the green transition. SMEs should domestically, cross-regionally, and internationally create networks to share experiences and knowledge. Thereby, the SME sector could become a competitive “laboratory” for innovations and the reduction of emissions in production processes.

The Role of the EU

- International partners play a key role in holding incumbent governments accountable for their promises and the timeframes to which they have committed themselves. For the EU specifically, adequate reporting on the state of progress of reform and/or pledges made by incumbent governments remains key. The reports of the European Commission released as part of the EU’s annual enlargement package would benefit from dedicated sections reflecting not only the state of play of decarbonization and green transition progress, but also explicitly approaching the issue from a legal perspective, to assess whether countries adhere to their international commitments.

- The EU needs to take into consideration the starting point of Western Balkans economies when it comes to decarbonization and grant feasible transition periods when introducing climate policies that affect external trading partners (such as for instance the CBAM).

- The EU should provide special financial support (on the scale of structural funding) to the countries of the WB in their decarbonization efforts. Transparency in the allocation and use of funds dedicated to implementing the Green Agenda should be ensured with a strong focus on monitoring compliance to allocation requirements.

- International partners should support CSOs in their advocacy efforts vis-à-vis governments to effectively implement the commitments made in the GAWB. International organizations can furthermore contribute to enhancing the knowledge of policy-makers in the Western Balkans on green transition topics to ensure the quality of legislation and its adequate implementation.

- International donors should streamline and coordinate their efforts in the form of a donor coordination platform to avoid overlapping of measures targeted at implementing the GAWB.

Decarbonizing the Western Balkans: (Political) Economic Challenges and Opportunities

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The Decarbonization Imperative

After a decade and a half of gradual reform and spotty target implementation under the aegis of the Energy Community, decarbonization in the Western Balkans (WB) may be turning a corner. At the Sofia Summit in 2020, the WB governments pledged to adhere to the European Green Deal and decarbonize by 2050.[2] This has not yet been followed by consistent action. However, incentives together with market forces, are already producing significant change in construction plans for renewable energy generation.[3] The European Commission's adoption of a series of legislative proposals in July 2021[4] to implement the Green Deal have further contributed to a sense of urgency.[5] In particular, a Carbon Border Adjustment Mechanism (CBAM) proposes a carbon charge on imports of selected products at the EU border that could be enacted as soon as 2026. Accession countries could receive an exemption, to be reviewed in 2030, but it would rely on the strict implementation of agreed-upon decarbonization measures.[6]

The magnitude of the decarbonization challenge varies widely for the different WB economies, being particularly high for Bosnia and Herzegovina and Serbia, which account for about 4/5 of the region's emissions. Their carbon intensity per unit of gross domestic product (GDP) adjusted for purchasing power parity (PPP) is about four times higher than the average for the European Union (Figure 1).[7] If comparable data were available for Kosovo, its emissions would undoubtedly stand worse. On the other hand, Albania's, Montenegro's, and North Macedonia's per capita emissions are lower than the EU average and only a little higher per unit of PPP GDP.

The key culprit for the Western Balkans' high emissions is the reliance on lignite coal for some 60 percent of the region's power generation. It should be noted that the share of thermal power in the region's electric power generation stands at about two thirds – only somewhat higher than the EU average. However, the region has no nuclear power and it burns virtually no gas in heat and power generation, while its poor quality lignite emits substantially more per unit of heat generated than hard coal. Lignite accounts for as much as 95 percent of the power produced and consumed by Kosovo and 60-70 percent of that produced and consumed by Bosnia and Herzegovina and Serbia. 70 percent of North Macedonia's power production is from lignite coal, but it imports around 30 percent of its final consumption. Montenegro and Albania, on the other hand,

[1] The authors would like to thank Viktor Bačanek, research assistant at the Center for Advanced Economic Studies, for his help in data collection and other valuable assistance provided.

[2] Regional Cooperation Council, *Sofia Declaration on the Green Agenda for the Western Balkans,* (November 2020), https://www.rcc.int/download/docs/Leaders%20Declaration%20on%20the%20Green%20Agenda%20for%20the%20WB.pdf/196c92cf0534f629d43c460079809b20.pdf (accessed October 28, 2021).

[3] The Tracker Report published in February 2021 is somewhat less sanguine in its assessment. However, the renewables and energy efficiency investment environment in Serbia, the largest emitter in the region, has been undoubtedly further significantly improved with the adoption of a package of energy laws in April 2021. Source: Energy Community, *WB6 Energy Transition Tracker,* (February 2021), https://euagenda.eu/upload/publications/enc-wb6-ett2-22021.pdf (accessed October 30, 2021).

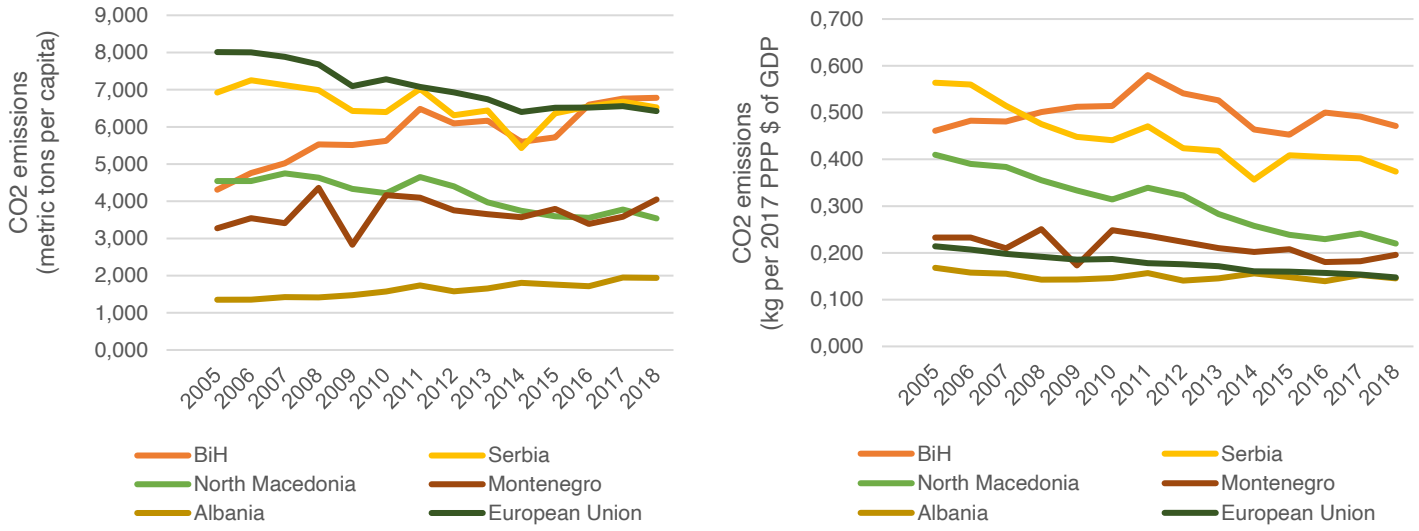
[4] European Commission, *Delivering the European Green Deal,* (2021), https://ec.europa.eu/clima/eu-action/european-green-deal/delivering-european-green-deal_en (accessed October 29, 2021).

[5] European Commission, *A European Green Deal: Striving to Be the First Climate-Neutral Continent,* (2018), https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en (accessed October 30, 2021).

[6] European Commission, *Carbon Border Adjustment Mechanism: Questions and Answers,* (July 14, 2021), https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661 (accessed October 28, 2021).

[7] A ratio of 1:8 or even 10 is often quoted because simple nominal GDPs are used in the denominator. However, this comparison is more appropriately done relative to GDP measured at PPP, as the World Bank database quoted does.

Figure 1. CO2 Emissions: Western Balkans[1] vs. European Union: 2005-2018



Source: World Bank Climate Watch database
[1] No data available for Kosovo

stand quite well by international standards with as much as 50 percent and 100 percent respectively of their power production derived from renewables (mostly hydropower), although Albania is also a net importer of energy.[8]

The second major factor is a very high (albeit gradually declining) energy inefficiency, mainly due to a legacy of poor building insulation.[9] The building sector is the largest consumer of final energy in the WB, consuming some 43 percent of the total.[10] Simply renovating buildings to meet minimum EU performance requirements would save some 40 percent of that energy, but there is also potential for substantial emissions reduction by improving heating methods.

The transport sector is similarly a large consumer of energy,[11] but its decarbonization is a less straightforward affair. It requires switching to more rail and water transport as well as electrification once electricity is produced at lower emission costs. Finally, nearly a third of final energy in the WB is consumed in the production of goods and services other than power, and a significant amount of carbon emissions are generated outside of industrial production processes, principally in agriculture and from waste.

Every aspect of the decarbonization effort is bound to impact businesses and have economic policy implications. The paper focuses on the necessary energy transition and its three most powerful and immediate impacts on the economy: the impact on the energy sector itself (part II), on the economy (excluding the energy sector) as a consumer of energy (part III), and on the economy as a beneficiary of investment in the greater energy efficiency of buildings and heating (part IV). The transformation of the transport sector and non-energy related emissions in agriculture and waste management are outside the scope of this research.

Transforming the Production of Energy

The current thermal generation capacity in the region is more than 35 years old and will need to be thoroughly refurbished or replaced by 2040, regardless of the need to decarbonize. If the transformation of the energy sector

[8] World Bank, *Databank World Development Indicators* https://databank.worldbank.org/source/world-development-indicators (accessed October 30, 2021).
[9] World Bank Group and Western Balkans Investment Framework, *Biomass-Based Heating in the Western Balkans: A Roadmap for Sustainable Development,* (October 2017), estimates that 42 percent of the energy derived from wood as heating fuel could be saved with improved wood processing and heating technologies.
[10] Energy Community, *WB6 Energy Transition Tracker,* (February 2021), https://euagenda.eu/upload/publications/enc-wb6-ett2-22021.pdf (accessed October 30, 2021).
[11] The energy needed to achieve a given temperature indoors during the winter in Serbia is more than double that needed in Scandinavia. Source: Milica Jovanović Popović et al., *Nacionalna tipologija stambenih zgrada Srbije,* GIZ Deutsche Gesellschaft für internationale Zusammenarbeit, (2013).

depended purely on economic factors, decarbonization could be a major growth-boosting opportunity as the region enjoys considerable untapped renewable energy sources (RES) potential. In particular, the transformation offers the region an opportunity to secure significant financing at favorable terms.

Taking specifically the example of Serbia, roughly estimated, the replacement of 80 percent of the existing thermal capacity with new thermal plants would cost some 11 billion EUR and contribute some 0.5 percent of GDP annually to the investment envelope; this, in turn, would accelerate the annual GDP growth of the region by some 0.08 percentage points during the entire period. However, if a significant portion of this replacement is to be undertaken with RES, there is a complex web of practical and political economic obstacles.

First, for the energy consumed by households to be replaced with RES, current power prices need to be increased and raising energy prices is extremely unpopular. The costs per megawatt (MW) of constructing new thermal capacity has become higher than that of RES capacity (the more environmental safeguards are assumed). At the same time, the same capacity amortizes over fewer units of RES power delivered, because solar or wind plants produce only intermittently when the sun or wind are available. Hence, the unit of power generated from RES still costs more. Yet, in some WB countries, the utilities' cost recovery from households, which consume about a half of all the energy produced, does not even reach the 5.5 cents per kWh needed to operate and service investments in new thermal capacities, let alone the minimum 7-8 cents per kWh necessary to build and operate the most inexpensive renewable energy facilities.[12] Cost recovery from commercial consumers is generally higher than for households, and for the largest industrial consumers it is now mostly at market levels. However, it does not quite suffice to finance the construction of RES. The RES power plant projects currently in operation rely on guaranteed feed-in tariffs, and the new ones planned in Serbia aim to sell energy on the liberalized market mainly to foreign consumers.

Second, the management of a RES energy system to provide energy security is more complex and costly. The cost becomes higher, even prohibitive for small economies, if the political goal is self-sufficiency. Because of the intermittence and unpredictability of RES plant production, more capacity needs to be built, particularly in additional offsetting – storage – capacity (most likely in the form of pumped hydropower reservoirs). Such reservoirs store energy when there is excess production and supply energy when it is lacking. Some amounts are needed to ensure energy security in the absence of thermal power, but larger capacities are needed if the political goal is self-sufficiency. Yet, offsetting capacities are expensive and would most probably need to be financed from public funds. A regionally integrated approach, while preventing self-sufficiency, would greatly reduce the need for offsetting capacity.

In this context, siding with the advocates of coal, Serbia's President has cited the need for energy self-sufficiency ("independence" in Serbia's terminology). However, coal reserves are bound to be exhausted while renewables are permanently available. It is really a question of cost – Serbia's President has also argued that coal allows us to "store electricity when it is cheap and sell it when it is expensive."[13]

In addition to the unpopularity of higher prices and costs of self-sufficiency, strong political and economic reasons on the side of the thermal power producers also weaken the political will for change. There is considerable pressure from the coal mines, thermal power plants, and subsidiary companies' massively oversized workforce.[14] In particular, a strike of the employees of Serbia's largest coal mine can singlehandedly "switch off" 40 percent of the country's electricity. Importantly, employment

[12] These cost assessments were obtained from key expert communication and refer specifically to Serbia.

[13] FoNet; Beta, "Vučić: Jovičić u Pritvoru Samo Zato Što Je Iz Srpske Napredne Stranke," *N1*, July 5, 2021, https://rs.n1info.com/vesti/vucic-jovicic-u-pritvoru-samo-zato-sto-je-iz-srpske-napredne-stranke/ (accessed October 30, 2021); Radio Slobodna Evropa, "Vučić: Srbija Se Ne Može Odreći Energetske Nezavisnosti," May 28, 2021, https://www.slobodnaevropa.org/a/srbija-termoelektrane-zelena-agenda-vucic/31278456.html (accessed October 30, 2021).

[14] This workforce is often wrongly referred to as "miners." Out of almost 12,000 employed in the largest Kolubara coal mine and its subsidiaries in Serbia, 6,500 work in the coal pits, and only a fraction of those are the actual "miners." Source: Elektroprivreda Srbije, *Ljudski Resursi,* (2021), http://www.eps.rs/cir/kolubara/Pages/O%20nama/ljudski-resursi.aspx (accessed October 30, 2021).

in these utilities is a key "benefit" often doled out by political elites, one that they would probably not want to reverse and pay for.

There is also a substantial industry that depends on maintaining and supplying the thermal power plants. This industrial structure would need to evolve if they were replaced by renewable energy plants. However, the region already supplies some RES plant parts to global markets (e.g., Siemens produces wind turbines and generators in Serbia, but sells them abroad), and there is no technical reason why the existing industry could not be adjusted. The problem is more one of a political economy surrounding utilities under public ownership. RES technologies ultimately create more domestic jobs (and demand if the value chains are sufficiently developed).[15] Project development, construction, and installation (including material needed), as well as maintenance can already be sourced within the region. Finally, research shows that renewables-generated power is more labor-intensive.[16]

Altogether, these political and economic interests feed a long-standing coal culture – the public's and possibly most experts' opinion is that coal is at the heart of the economy's development potential, obviously further affecting the political calculation. This view is shared in Serbia and Kosovo, and to a lesser extent in Bosnia and Herzegovina. In the case of Kosovo, it is a legitimate point of view. Kosovo sits on vast coal reserves,[17] and while these are comprised of the low-quality lignite kind, they could satisfy the region's current levels of thermal power supply for 200 years. Kosovo cannot be expected to simply renounce access to such an asset. However, in the case of Serbia or Bosnia and Herzegovina, the perception of coal is much more questionable. For Serbia, details of official estimates have not been made accessible to the public. The mythical elements surrounding coal could be dispelled, if information about the actual availability of resources and what can be gained from alternatives was made available.

Adapting Other Production

The rest of the economy – from agriculture and industry (other than energy) to services – will need to adapt to higher energy prices, as well as greater regulation. This adjustment will force greater energy efficiency in production as it is, but it will also require the adoption of new technologies, the substitution of energy-intensive products for more efficient ones, and the closure of many businesses altogether. Concern over the disruption that this will cause in the rather fragile WB economies is a source of resistance to change, some going as far as to claim – as recently the Serbian President did – that were energy prices (i.e., electricity and gas) to increase, it would eliminate any interest of potential investors in the region.[18]

Our analysis suggests these fears are overstated. Prices of electricity for commercial consumers in WB are some 20-25 percent lower than in Austria or Belgium, for example, and only due to lower taxes and levies. As most sectors have an energy intensity lower than 2 Mega Joules (MJ)/USD – this will be discussed in more detail later in this chapter – we can assume that energy cost in such industries would increase by at most 1 percent of their value added if they were raised to the 11-12 Euro cents per kWh charged in the less expensive EU member countries.[19] Of course, in industries where the energy intensity is for example 60 MJ, the difference can amount to 30 percent of value added, and as argued below, their viability may be compromised depending on the existence of other sources of comparative advantage.

We expect that the desired accelerated growth in incomes, i.e., economic convergence with the EU, will both benefit from, and contribute to, decarbonization. In particular, the more energy intensive, larger economies of the region are likely to increase their incomes by the faster growth of the less energy-intensive sectors of the economy (such as services and computer products), as it is these sectors that tend to raise incomes the most. It is also true that the

[15] Panagiotis Fragkos and Leonidas Paroussos, "Employment Creation in EU Related to Renewables Expansion," *Applied Energy,* Vol. 230 (November 15, 2018): 935-45.

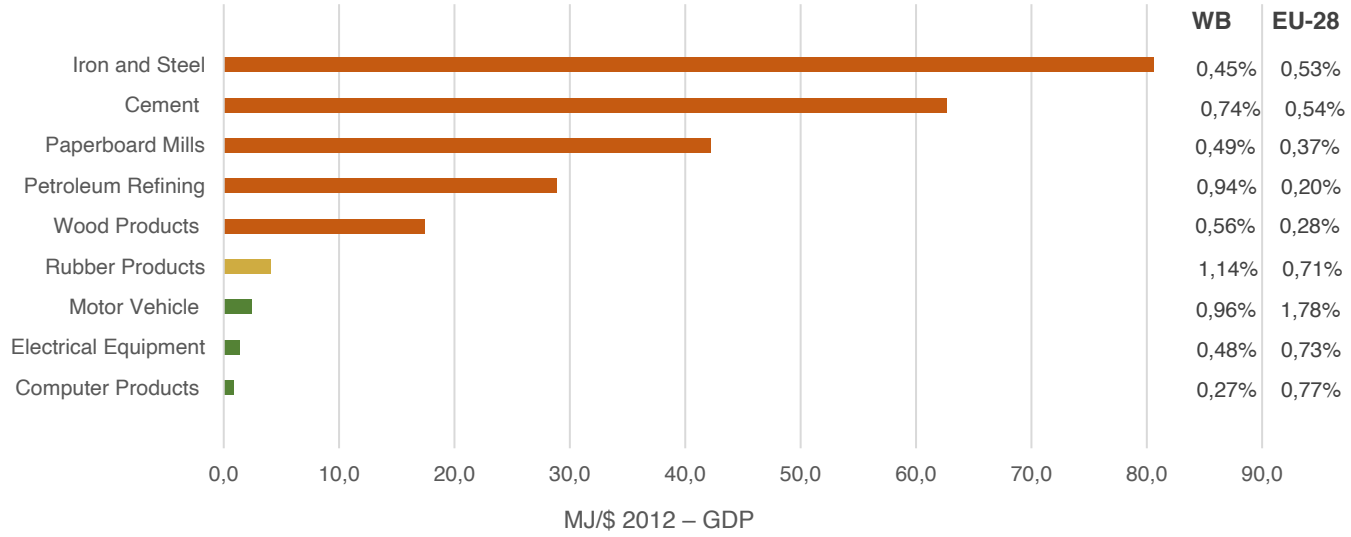
[16] Erik Hille and Patrick Möbius, "Do Energy Prices Affect Employment? Decomposed International Evidence," *Journal of Environmental Economics and Management,* Vol. 96 (July 1, 2019): 1-21.

[17] J. Monthel et al., *Mineral Deposits and Mining Districts of Serbia - Compilation Map and GIS Databases*, Ministry of Mining and Energy, (March 2002), http://gras.org.rs/wp-content/uploads/2017/10/mineral-deposits-and-mining-districts-of-serbia.pdf (accessed October 30, 2021).

[18] B92, "Vučić: 'Izgubićemo sve investicije ako se to desi,'" September 23, 2021, https://www.b92.net/biz/vesti/srbija.php?yyyy=2021&mm=09&dd=23&nav_id=1926721 (accessed October 30, 2021).

[19] This may not be true if the technologies used in the Western Balkans are much more energy intensive than in the countries the data refer to. However, this is very unlikely to be the case for most industries.

Figure 2. Sector Energy Intensity[1] and GDP Share (Western Balkans[2] vs. EU-28)



Sources: Canadian Energy and Emissions Data Centre; Eurostat 2018; authors calculations.

[1] Refers to NAICS (North American Industry Classification System) sectors or its subsectors in 2012, while the corresponding sectoral GDP shares all refer to the sometimes broader, respective, NACE_2 sectors observed in 2018.

[2] Includes: Serbia, North Macedonia, and Bosnia and Herzegovina.

completion of the agricultural transition will inevitably have the opposite effect, but this is likely to substantially affect only Albania. Also inevitable is that higher energy prices will reveal the weaknesses in sectors that heavily rely on cheap energy for their competitiveness. This can only be an important factor in sectors that require very high levels of energy in their production processes. Note that, as illustrated in Figure 2 above, the energy intensity of industrial sectors can vary very widely, with steel, cement, or paper requiring 60-70 times more energy per euro of output than the least energy intensive ones, such as computers.

In the subsequent sections, the paper will discuss the above conclusions in more detail using data about the region's energy intensity by wide economic sectors (agriculture, industry, and services) provided by the World Bank and Eurostat data on the countries' structures of production. There is no region-specific data on the energy intensities of a finer sectoral breakdown in the subsequent section, which is why the analysis relies on robust stylized facts derived from data for the Canadian Energy and Emissions Data Centre (see Footnote 1 to Figure 2).

The Foreseeable Transformation of Broad Economic Sector Structure

One of the key development transformations expected in the region is the completion of the agricultural transition – a decline in agriculture as a share of GDP to levels below three or four percent. This will increase the WB's energy intensity because traditional agriculture is by far the lowest energy-intensive economic activity in the region. With the exception of Albania where it reaches as much as 21 percent, the contribution of agriculture to GDP currently ranges between 6.6 percent (in Bosnia and Herzegovina) and 9.3 percent (in North Macedonia). Moreover, as the region modernizes, it is inevitable for the energy intensity of agriculture to increase – from being lower than any other to reaching a level comparable with that of the mid-range intensity of industrial sectors. Note that this does not necessarily mean its carbon emissions will increase commensurately. Agriculture offers ample opportunities for decentralized "green energy" practices that could still keep its emissions from rising too fast. However, this would require a substantial policy effort.

Table 1. Energy Intensity and Production Structure, Western Balkans vs. European Comparators[1/2]

	Energy intensity(2012)			Sector GDP share(2018)		
	(MJ/$)			in %		
Western Balkans	Agriculture	Industry	Services	Agriculture	Industry	Services
Bosnia and Herzegovina	0,1	5,1	…	6,9	28,7	64,4
Serbia	1,3	6,4	0,9	7,7	30,8	61,6
Kosovo	0,5	5,5	0,6	8,1	34,6	57,3
Montenegro	0,3	9,4	…	8,2	19,5	72,3
North Macedonia	0,5	4,3	0,8	9,8	27,7	62,6
Albania	0,0	5,8	…	21,1	24,3	54,6
Comparator Countries						
Slovenia	2,5	3,7	0,7	2,6	32,5	64,9
Netherlands	13,9	4,9	0,9	1,8	19,9	78,3
Romania	1,2	3,0	0,6	4,8	31,2	64,0
Norway	8,7	3,8	0,8	2,1	35,7	62,2

Source: World Bank SE4ALL database; Eurostat (2018)

[1] Comparator countries have been selected to represent different segments across the range of European energy intensities.

[2] Industry includes the electricity sector, which explains the much higher energy intensities of industry in the economies more reliant on fossil fuels and especially in the WB where energy comprises a large share of total industry. Share of electricity from renewables: Bosnia and Herzegovina 32.29%; Serbia 30.01%; Kosovo 5.15%; Montenegro 62.96%; North Macedonia 22.89%; Albania 100%; Slovenia 33.29%; Netherlands 22.89%; Norway 98.79%; Romania 43.87% (Source: BP, Statistical Review of World Energy 2020).

As the share of agriculture declines, the share of services will surely increase as well as that of industry, excluding the energy sector (judging by the experience of other transition economies and current trends in the region).

Services are the least energy intensive segment of a modern economy. If they grow on account of the share of non-energy industry, this will significantly reduce the energy intensity of the WB economies. Note that in the data contained in the table below, industry includes the energy sector whose energy intensity tends to dominate the total of industry (except Montenegro, see below). Hence, it is not possible to discuss non-energy industry intensity based on it. However, of even greater importance is that the energy intensity of industry itself is very likely to decline in the more carbon-intensive and larger economies (Serbia and Bosnia and Herzegovina) and possibly also in North Macedonia and Kosovo. This is likely to offset at least part, and likely all, of the effect of the agricultural transition in the region.

A Closer Look at the Structure of Industry

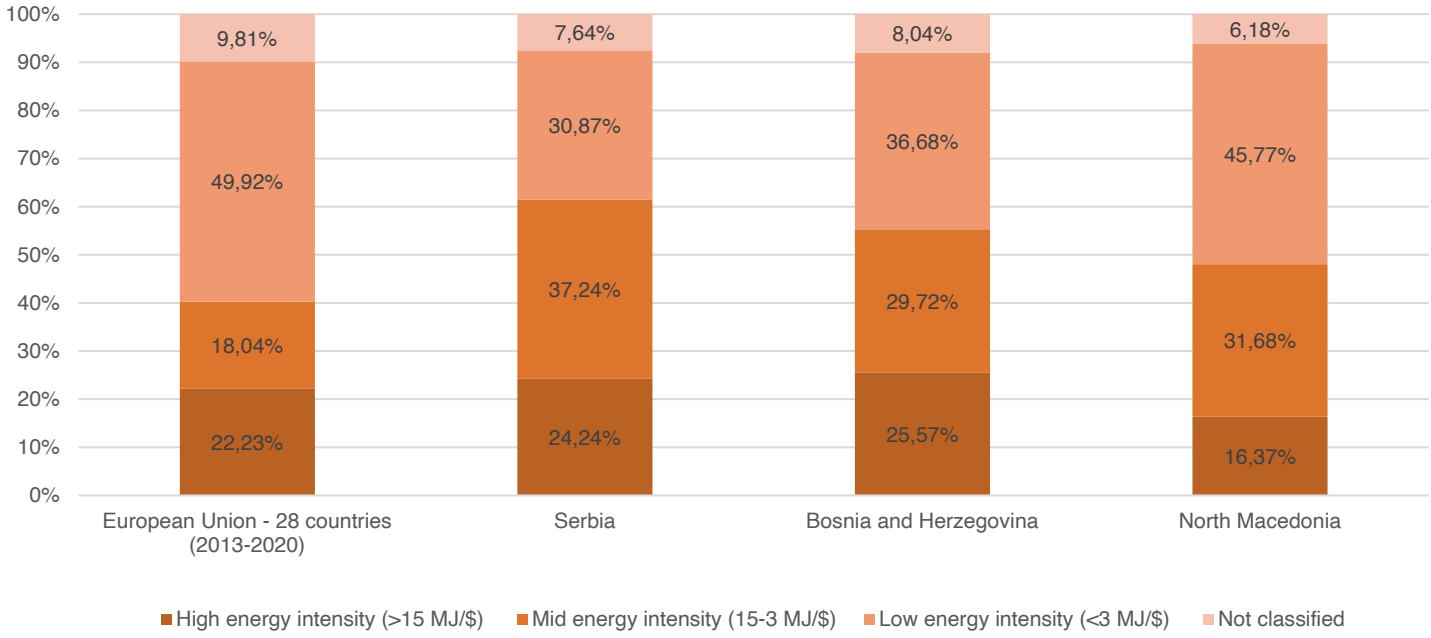
First, the structure of the WB economies is compared with that of the EU as a whole to see how they compare by energy-intensity. As the energy intensity of industrial sectors varies very broadly, they can very robustly be grouped into three categories, with the high-energy intensive group including, among other things, iron and steel, cement, and chemicals. The medium-intensity sectors (in a range between 3-6 MJ/USD) include food, mining, and rubber and plastics, and the least intensive include low-tech industries such as textiles and furniture making, but also mid- and high-tech industries such as computers, electrical equipment, or electronics, all standing below 3 MJ/USD (see footnote to Figure 3).

This analysis finds that the industrial structures of the WB countries for which comparable data is available – Serbia, Bosnia and Herzegovina, and North Macedonia – indeed are more energy-intensive than those of the EU as a whole (Figure 3). This is partly because of a larger share of high-energy intensive industries (24.2% in Serbia and 25.6% in Bosnia and Herzegovina vs. 22.2% in the EU-28), but mainly because of a nearly twice as large share of mid-energy intensive industries (ranging

from 29.7% to 37.2% of industry vs. 18.0% in the EU). Meanwhile, the WB economies' share of low-energy intensity industries is lower (and significantly so for Bosnia and Herzegovina with 36.7% and Serbia with 30.9% vs. 49.9% for the EU-28).

The authors expect that in the process of economic convergence with the EU, the share of **mid-energy intensive industries** in total output would "naturally" decline. Mid-energy intensive industry consists of only a few industries, but it includes food processing as well as mining and quarrying operations, which tend to be very significant in the WB. These are two sectors whose development is strongly determined by outside factors. In the case of food, it is a strategic industry in which Serbia and North Macedonia have particular competitive advantages, but its potential for growth is likely to be limited by the steady and slow rise in demand. Mining, on the other hand, depends on the availability of natural resources and the see-saw of commodity prices, but less so on the cost of energy or rising incomes. Serbia, in particular, appears poised to increase the share of mining in its output with the development of copper mining in the east and lithium in the west of the country. However, once these mines have been established, they are unlikely to grow in line with the rest of the economy, and the shares of food and mining should both eventually decline. On the other hand, the production of rubber and plastics is also significant, especially in Serbia. Low energy prices contributed to attracting these industries to the region, but they have meanwhile developed other strong comparative advantages.[20] These are industries that for a long time have withstood higher energy prices in the EU and are unlikely to become unviable in the WB before labor costs also increase, signaling a process of development.

Figure 3. Non-Energy Industry Structure by Energy Intensity, Western Balkans vs. EU Comparators, 2018



Source: Eurostat

High energy intensity: manufacture of basic metals; non-metallic mineral product; paper products; chemical products; coke and refined petroleum products; wood and cork products.

Mid energy intensity: mining and quarrying industry; manufacture of rubber and plastic; food beverages and tobacco products.

Low energy intensity: manufacture of computers electronic and optical products; motor vehicles, trailers and semi-trailers; machinery and equipment; manufacture of furniture; products from textile; electrical equipment; fabricated metal products, except machinery and equipment; other transport equipment.

Not classified: water supply; sewerage, waste management and remediation activities; repair and installation of machinery and equipment.

[20] CEVES, CCIS, *Integrated Report on Performance and Value Chain Analysis of Selected Sectors within Manufacturing History,* (December 2007), https://ceves.org.rs/wp-content/uploads/2019/04/Integrated-Report-on-Performance-and-Value-Chain-Analysis-of-Selected-Sectors.pdf (accessed October 30, 2021).

On the other hand, the share of **low-energy intensity industries ought** to increase, if convergence is to be accomplished. These encompass a broad range of sectors, including those with the greatest potential for raising productivity, advancing technological development, and offering productive employment. These sectors include motor vehicles, computers, and electronics. It is only through the accelerated growth of such industries (as well as high-value services) that the WB countries will be able to offer its citizens the future they aim for.

As regards **high-energy intensity industries,** these are industries that will come under pressure to radically transform globally, and their future is hard to foresee. At the same time, it is also difficult to envision the development driver that would require that their economic output grows in line with that of the less-intensive, higher-tech industries and services. Clearly, the need to improve or switch technologies will give an advantage to those who first attain the necessary know-how. On one extreme are the industries which are likely to become wholly disrupted, such as fertilizers and other petrochemicals (chemicals contribute 1 percent of GDP in Serbia, similar to the EU-28), rendering the installed capacity in the region irrelevant. On the other extreme are industries in which technological improvements will spread fast and for whom capital will be made available only where the circumstances are particularly competitive.

Assuming no major disruption to the nature of the product itself, we can expect the latter scenario in the case of cement (in all three countries), paper (in Serbia and Bosnia and Herzegovina), and the processing of wood (in Bosnia and Herzegovina). These sectors are likely to remain competitive but will lose GDP share (as with mid-energy intense products). Cement and paper are protected by the relatively high costs of their transport and are industries that need to be geographically distributed where there is an availability of raw materials. Wood-processing is intimately tied to the availability of plentiful natural resources that, moreover, could be further developed and contribute to decarbonization. The basic metals industry is significant in Bosnia and Herzegovina (1% of GDP) and North Macedonia (0.58% of GDP – similar to the EU-28), and it may also be sufficiently competitive since it relies on domestic resources. On the other hand, the current competitiveness of the steel as well as the petroleum and petrochemical industries in Serbia (together contributing 2.8% of GDP) is more likely to be questionable as they process imported raw materials. In all of these cases, there are clear implicit subsidies in the form of lax implementation of environmental standards and there may be other subsidies which cannot be known due to lack of transparency.

Specificities of the Smaller Economies

Regarding the smaller economies of the region, they have their own unique specificities. **Montenegro's** development is based on an already rather successful service sector (tourism), and it could easily become a low-carbon economy were it not for the extremely high energy intensity of its industrial sector, which almost entirely consists of a very large aluminum smelter. It processes mainly imported ore, as well as a small amount of a local high-content ore (that is also exported). The smelter receives an explicit energy subsidy with the cost to large producers (4.4 cents per kWh) amounting to slightly less than a third of that paid by small commercial establishments.

Albania is unique in that its agricultural transition is well behind the rest of the region. It is hard to tell whether and to what extent the economy is going to industrialize or follow in Montenegro's footsteps instead. Either way, it can be expected to increase the energy intensity of its economic structure at least somewhat, and its development may also require some increase in the use of fossil fuels.

In the case of **Kosovo**, however, the decarbonization imperative presents a clear challenge not only because of the profile of its already discussed energy sector, but also because of the development needs of its non-energy industrial sectors. The relatively high share of industry in its GDP is a reflection of the large energy sector and mining operations that exploit coal, lead, and zinc. What little industrial processing is present consists mostly of food and a sharply scaled-down lead and zinc ore processing operation. All of these are high- or mid-energy intensive sectors that present formidable ecological challenges. Yet, unlike Montenegro or Albania, Kosovo has no evident

significant RES resources or potential for the development of a large high-value added service sector to turn to.

Impact of Increasing Energy Efficiency in Heating

Among the various final uses of energy, improving its use for heating buildings is probably the most rewarding task of decarbonization: it boosts the operation of the construction sector and it pays for itself. To illustrate the economic potential harbored in the necessary refurbishment, we take the example of Serbia and the government's assessment that the average basic refurbishment requires an investment of 1,700 EUR.[21] At current electricity prices, it would take around six years for this investment to pay off, assuming fully subsidized capital costs in households heating solely with electricity. For households using district heating, investment would take eight to eleven years to pay off.[22] Moreover, assuming one half of Serbia's 2.4 million households implemented the program, the total investment would amount to 2 billion EUR and generate 50,000 full time equivalent (FTE) jobs.

The labor-intensive construction sector would benefit first, generating most of these jobs, but the local construction material industry used in energy efficiency improvements would benefit, too. There are already significant capacities for the production of polyvinyl chloride (PVC) plastic and aluminum double- and triple-glazed windows, as well as factories that produce components of the buildings' thermal envelope, both of which are the principal components in building efficiency improvement. These industries would develop further. Although initially many of the jobs would be temporary, considering the extended period in which increased income would be generated and the boost to the local industry, some permanent jobs would also be generated.[23]

Much improvement needs to be introduced in the sources of heating and their efficiency, too. Efforts are underway to increase the rather low level of gasification of heating in Serbia and North Macedonia (with Bosnia and Herzegovina in early stages), while so far no apparent strategic thought has been given to the possibilities offered by renewable technologies. Instead, emphasis should be put on the reliance on renewable sources such as photovoltaic (PV) panels to complement other sources in individual households and district heating plants, as well as switching from coal to biomass in district heating. Considerable and likely permanent economic and health gains could be obtained with an upgrade in the wood-combustion heating methods used by so many households in the region. 42 percent of heating energy in the region is derived from unprocessed biomass, usually simple firewood, whose caloric effect could be significantly increased if it were previously better processed and if furnaces were improved.

Another improvement would be the replacement of fossil fuels with renewables in district heating plants, a majority of which also run on lignite. The wood processing and stove production industries – both already present and showing development potential – would enjoy a longer-term and significant boost. Meanwhile, this is an affordable and feasible interim solution until either households' incomes increase to the point where they can afford cleaner sources (such as heat pumps), or forest management becomes so reliable as for biomass to become a reliably climate-friendly source of energy.

However, the incentive system to encourage a transition on a massive scale requires a strategic approach involving financial incentives to cover the necessary investment in PV panels, pellet stoves, and possibly household installations. Policies need to be developed to ensure and demonstrate the sustainable exploitation of private as well as public forests. The latter would itself make a contribution by enhancing their carbon-sink effect.

[21] Građevinarsto, "Unapređenje Energetske Efikasnosti u 10.000 Domaćinstava u Srbiji," *Građevinarstvo.Rs – Portal Građevinske Industrije*, (June 28, 2021), https://www.gradjevinarstvo.rs/vesti/19280/810/unapredjenje-energetske-efikasnosti-u-10-000-domacinstava-u-srbiji (accessed October 30, 2021).

[22] Dubravka Matic et al., "Economically Feasible Energy Refurbishment of Prefabricated Building in Belgrade, Serbia," *Energy and Buildings,* Vol.98 (July 2015): 74-81.

[23] The FTE years are derived based on an assessment of all direct, indirect and induced labor generated by investment in energy efficiency in the United States (Marilyn A. Brown, Anmol Soni, and Yufei Li, "Estimating Employment from Energy-Efficiency Investments," *MethodsX,* Vol. 7 (2020)).

Recommendations

To Governments of the Region

- **Develop low-carbon development strategies with an open mind and based on evidence.** The best, and certainly the cheapest measure that WB governments can take to accomplish the twin goals of economic convergence and decarbonization is to develop clear visions and announce the relevant measures and incentives whereby this is to be accomplished. As described above, convergence and decarbonization for the most part are not competing goals in the WB. The clearer the visions and commitment to results, the stronger the region's bargaining power to secure meaningful financial assistance. Of even greater importance is that clear commitments would provide incentives for businesses to prepare and effect the necessary transition themselves. The most important incentive that would single-handedly accomplish much of it are increases in power prices. These, however, need to be announced with time – certainly this could be a time horizon longer than an electoral cycle – to allow both businesses and the government time to prepare. In particular, it would allow governments time to roll out support programs for citizens and businesses likely to be particularly affected and hence reduce the resistance to change. If announced in parallel or before announcing the price increases, this would greatly reduce the political cost of the latter.

- **Talk to businesses and support viable change**. The most energy intensive businesses in the region are large and generally owned by foreign entities with access to capital. If they enjoy underlying competitiveness, the governments would do well to seek "early movers' advantages" by engaging in a dialogue with them and securing/supporting their transformation in these countries rather than losing them to other early movers. However, if, as argued above, viability becomes highly questionable, this could reveal an already existing weakness that is most likely costing the WB already. For these cases the region would do well to seek assistance, and the EU to grant it, to prepare costly closure, reemployment, and environmental clean-up programs.

- **Invest in reducing the sources of resistance before a policy is agreed, announced, and by all means – implemented.** For example, the development of alternative sources of employment needs to be explored well before, not after, a utility is due to be restructured. It needs to be taken into account that it takes time to develop implementation capacity for such programs, whether they are delivered by the government or independently.

- Although early encouraging steps have been taken, the energy narrative can be changed by lending greater support to **programs that promote "prosumption" – the production of renewable energy by consumers.** This may not quickly reach significant scales, but it demonstrates the possibility and power of decentralization. Desirable in every respect.

To the European Union

The European Union has been supporting and encouraging the WB towards energy and environmental sector reform as in all other areas – by building the countries' capacities and institutions necessary to adopt and implement the acquis. **However, including the WB in the battle against climate change transcends the EU membership agenda and it merits a special approach**. In addition to continuing with the current strands of engagement, this special approach needs to include a two-pronged effort that will also:

a) develop a more direct engagement with stakeholders rather than working with them mainly through governments;

b) make available financial resources on the scale of structural funding to ensure support and incentives are truly transformative both for governments and businesses.

Such an approach would build and engage stakeholders of change in overcoming the cultural and political-economic idiosyncrasies that ultimately present formidable barriers to change. To ensure such an approach meets its mark, it is necessary to:

- **Invest in the development of academia and civil society that can provide deep local knowledge as well as reach local hearts and minds**. Presently, there is growing capacity in the civil society to understand and measure environmental challenges. However, there is a need to build from the ground up a civil society capable of offering: (a) expert knowledge of economic and sectoral trends, assessments of cost-benefit tradeoffs, project development, incentive systems design; (b) independent opinions on key official technical assessments (such as about the availability of coal reserves) which are often colored by cultural or other biases; (c) monitoring of strategic environmental and energy policy-making. In all of these areas, some academic and individual capacity is available to build on, but highly qualified individuals from the diaspora also need to be attracted.

- Invest in the capacity of CSOs to **deal with the complexities of transparency and governance of the energy sector.**

- Invest in building the **capacity of the EU to engage more directly with the region's private sector** through the development of regional business support organizations and CSOs capable of offering the necessary services and access to EU funding. This approach can be seen in competitiveness development support programs which are implemented by some bilateral development partners.

- Invest in the **development of funding instruments that will be differentiated to fit a variety of circumstances and stakeholders**. For example, capillary and flexible funding is needed to build CSOs from scratch, but an instrument helping to secure the capital and reduce the funding costs of investment in renewables would need to be very large and have a component directed to the financial sector and another to governments.

To build the CSO and business support capacity described above, a gradual approach and steady flow of support is needed to ensure the organizations build the necessary expertise, institutional memories, and deep local knowledge, as well as master the complexities of drawing on plentiful European funding.

The EU may also wish to:

- **Encourage governments to take a longer-term view and invest in reducing the sources of resistance before a policy** is announced or implemented. For example, support needs to be invested in the development of alternative sources of employment well before, not after, or during the period when a utility is due to be restructured, as has been the case in some larger privatizations. Take into account that it takes time to develop implementation capacity for such programs, whether they are delivered by the government or independently.

- Seek to develop partners able to mediate direct support to **"prosumption"** i.e., the production of renewable energy by consumers.

- **Adapt Europe's understanding of needs and priorities to local circumstances**. For example, replacing conventional with electric vehicles will not and should not be a priority in the Western Balkans before the EU begins to export second-hand electric vehicles, surely more than a decade from today. This is also convenient for the EU, as the option to sell used conventional vehicles in the WB amortizes the pressures of its current greening measures.

The Role of the Business Community in Implementing the Green Agenda for the Western Balkans and Decarbonizing the Economy

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Introduction

This paper discusses the impact of the Green Agenda on the Western Balkans (WB) business community and the role that businesses can play in implementing a sustainable energy transition. A substantial component of the Green Agenda in the WB will be the decarbonization of the economy, meaning reducing emissions in energy production and industrial activity. Ultimately, the costs of decarbonizing the economy and, more generally, the energy transition will be paid by the business community and the citizens due to necessary investments. The decarbonization of the energy sector will also have substantial impact on the operation of businesses:

- Directly and indirectly on commercial companies, especially those operating in industrial export-oriented sectors since they need electric energy for their activities;

- Directly on companies operating in the power sector, specifically those in the mining industry.

The decarbonization will have different impacts on large multinational companies than on small and medium-sized (SMEs) enterprises, which lack the financial and human resources to implement decarbonization programs. An analysis of the impact and potential role of private SMEs and the public, mostly state-owned, power utilities is the focus of this paper.

The impact and role of international companies in the energy transition, either as potential investors or as manufacturing businesses, will depend on the creation of an enabling environment for direct investments. The perspective of such companies is therefore not analyzed in this paper.

In its conclusion, the paper provides recommendations on what the national governments and the European Union should do to create an environment in which SMEs and power utilities can fully participate in implementing the energy transition.

The Impact of the Energy Transition on Local Industrial SMEs and Their Role in the Process of Greening the Economy

SMEs will be directly and indirectly affected by the energy transition. They will have to adapt energy management practices that decrease the carbon footprint of their products (direct impact). The eventual inclusion of WB countries in the EU's carbon pricing scheme will have a notable impact on SMEs which base their business on export to the EU. SMEs will also bear the increased costs of decarbonizing the electricity supply more generally (indirect impact). Since industrial SMEs are expected to be drivers of post-COVID economic recovery in the region, mitigating the negative impact of the energy transition on their operations should be a priority of governments.

The energy transition is also an opportunity for SMEs to decrease the energy intensity of their production by implementing energy efficiency measures and accepting energy management practices. Due to the decreasing costs of solar photovoltaic technology, SMEs also have the potential to become electricity producers for self-consumption (known as "prosumers").

Despite the positive effects that energy efficiency measures have on the performance of SMEs, most cost-effective energy investment opportunities might be rejected in favor of other capital spending. This phenomenon is called the "efficiency gap" or the "energy paradox." The implementation of energy efficiency measures and policies related to it largely depend on identifying and overcoming significant barriers, which hinder the success of energy efficiency measures. To eliminate these paradoxes and encourage SMEs to invest more in energy

efficiency, coordinated "top-down" and "bottom-up" approaches need to be developed to overcome barriers that SMEs confront when starting an energy efficiency improvement project.

The most common barriers that hinder the investments of SMEs in cost-effective, energy-efficient practices and technologies can be classified into the following categories:

- Economic and Financial Barriers
- Informational Barriers
- Legal and Administrative Barriers
- Organizational Barriers

Economic and financial barriers include limited access to capital and the lack of appropriate loan conditions. These are often considered some of the most important investment barriers. Informational barriers exist because their high transaction costs can hinder firms from making energy saving investments. High transaction costs typically include the costs needed to gather, assess, and apply the information about energy saving potentials and relevant technologies. Legal and administrative barriers include complexity, the lack of a transparent structuring of the legal framework, regulatory instability and discontinuity, excessive bureaucratic obstacles, and non-transparent and complex administrative and authorization procedures. Organizational barriers are typically associated with the lack of qualified human resources and insufficient professional expertise, as well as a lack of training and education possibilities for the formation of professionals with adequate skills for conducting energy audits and energy efficiency projects.

SMEs in the WB could be potential promoters of the energy transition. Provided they have adequate financial resources (top-down measures) and adequate organizational support (bottom-up measures) available, SMEs will be the first to embrace pillars of the transition on the local level: energy efficiency, renewable energy, and energy management. In the project "Local Inclusive Low Carbon Development – LINK," a high potential is also identified for synergies between SMEs and local governments, including public-private partnership projects. Finally, SMEs which successfully implement energy transition projects could become agents of mindset change among the general population in supporting this socially sensitive transformation.

Current State of the Power Sector

The decarbonization of the economy also requires the decarbonization of the energy sector, which will strongly affect the operation of the public power utilities. Indirectly, the retrofit of thermal power plants to comply with environmental regulations and the decarbonization of electricity production in general will have an impact on SMEs as well. Currently, SMEs are mainly exposed to the impacts of the regional electricity market. Hence, they pay higher prices than the households as the latter profit from national subsidies. Therefore, the future development of power utilities and energy production is of great concern for SMEs.

The power utilities in the WB mainly depend on the use of domestic lignite for electricity production (48% in the generation capacity), although large hydro power plants have a substantial share in the electricity mix (46% of the generation capacity).[1] Though the electricity market has been formally opened, the operation of public utilities is heavily influenced by politics. The governments expect public utilities to provide both secure and affordable electricity supply and to subsidize electricity for households and small entrepreneurs through regulated prices. In return, they provide state subsidies directly to the mining sector and in the form of state guarantees for investments to the utilities. Thus, due to a complex system of cross-subsidies, the hydro and coal plants portfolio produces low-cost electricity which provides revenues for the governments, miners, and the local communities. Hence, electricity production in the WB countries is "much cheaper" than in the EU.

However, thermal power plants in the region are old and highly polluting. Based on membership in the Energy Community, the utilities are required to substantially invest in the retrofit of coal plants to comply with the EU Large Combustion Plants Directive (LCPD) and by

[1] CEE Bankwatch Network, *Western Balkans Power Sector Future Scenarios and the EBRD,* (2018), https://bankwatch.org/wp-content/uploads/2018/11/Western-Balkans-power-sector-future-scenarios-and-the-EBRD.pdf (accessed July 27, 2021).

2028, with the EU Industrial Emissions Directive (IED). At the moment, none of the WB Energy Community member states comply with these obligations. In addition, WB countries are not part of the EU's Emission Trading Scheme (ETS) which is the most efficient mechanism for decreasing carbon emissions. Many WB governments are delaying carbon pricing reforms as much as possible because they fear the social unrest caused by rising electricity prices. This opaque political economy has served all key stakeholders well: governments, utilities, SMEs, and citizens. However, the price has been paid by local populations, affected by the air and land pollution, and the lost opportunity costs of hydro power production.

Apart from the Energy Community Treaty signed in 2006, all WB countries signed the Paris Climate Agreement in 2016. They are also candidates or potential candidates for membership in the EU. In 2020, WB governments signed the Sofia declaration thus committing themselves to "further pursue and accelerate the efforts in the EU accession process, the commitments for a major transformation of the region and readiness to properly and timely address the growing environmental and climate challenges in the Western Balkans and turn them into opportunities."[2] Whether EU membership aspirations and international political, economic, and technological factors will galvanize WB governments to genuinely implement the Green Agenda remains to be seen. Recent power sector development studies[3] indicate enormous potential for energy efficiency improvements and renewable energy deployment, which could enable the development of a 100 percent low-carbon power sector no later than 2040.

The Impact of Decarbonization on the Power Utilities

Key socio-economic players in WB countries are state-owned power utilities. The only major private producer is the EFT Group in Bosnia and Herzegovina, the owner of the thermal power plant Stanari (300 MW). The power utilities are the biggest businesses in the region – major employers, investors, taxpayers, and social welfare providers. The utilities operating under their current missions, visions, development strategies, and business models are not prepared for the forthcoming transformation of the power sector. Currently, they are mostly opponents of necessary reforms. Only recently, after much resistance, they have begun to gradually shift their generation expansion plans from lignite to renewables. This is mainly happening because of difficulties to secure funds for new coal plants and the risk of being exposed to the EU carbon leakage prevention scheme – the Carbon Border Adjustment Mechanism (CBAM). The introduction of CBAM will force WB countries to introduce national carbon pricing schemes, which will aggravate the competitiveness of the coal plants. As a consequence, carbon pricing will increase the costs of electricity for industry.

In the project "Renewable energy policy consensus building – REPCONS" that is implemented by a consortium of think tanks in Bosnia and Herzegovina, Serbia, and Montenegro, research is being conducted to evaluate the readiness of WB countries for the decarbonization of the power sector. The report titled "Barometer of country readiness for sustainable energy transition" is being prepared by more than 100 local multidisciplinary experts. The barometer will present an expert forecast of the energy transition trajectory with a set of recommendations for national and international actors on how to elevate the energy transition process.

Preliminary research findings indicate that a "perfect storm" scenario is most likely if structural changes in the power sector are not implemented. An exceptionally low level of knowledge around the barriers and opportunities of the energy transition and the poor readiness of key stakeholders (governments, utilities, academia, businesses, media, and citizens) for the required radical transformation have been identified. The experts ranked the preparedness of the governmental institutions and the public

[2] Regional Cooperation Council (RCC), *Sofia Declaration on the Green Agenda for the Western Balkans,* (November 2020), https://www.rcc.int/docs/546/sofia-declaration-on-the-green-agenda-for-the-western-balkans-rn (accessed July 27, 2021).

[3] International Renewable Energy Agency (IRENA), *Renewable Energy Prospects for Central and South-Eastern Europe Energy Connectivity (CESEC),* (October 2020), https://www.irena.org/publications/2020/Oct/Renewable-Energy-Prospects-for-Central-and-South-Eastern-Europe-Energy-Connectivity-CESEC (accessed July 29, 2021).

utilities for the energy transition with exceptionally low marks and do not consider them to be leaders of the process. This substantially complicates the situation since WB governments and public utilities currently dominate the sector. If a radical paradigm change does not happen, the power sector is heading toward very turbulent times.

The starting position of the power utilities for implementing the energy transition is also crippled by the fact that the "first energy transition" (market liberalization) has not been implemented in earnest within the Energy Community. Electricity markets are hardly functioning, and the incumbent utilities face no competition. Currently, the utilities are not fit for the requirements of the "second energy transition" (decarbonization). Institutional inertia and vested interests continue to hamper decarbonization efforts.

The Role of the Power Utilities in Decarbonization

The question arises: What is the future of power utilities in the WB? To play an important role in the energy transition, the utilities in WB countries face challenging tasks to:

- Prepare for competition on an open and functioning regional electricity market;
- Align with LCPD and IED standards;
- Gradually phase-out electricity production from coal;
- Increase the share of renewables in the generation portfolio.

At the same time, the security of supply needs to be maintained. All of this requires a radical change of the utility business model if they want to evolve into "utilities of the future."

This transformation requires, above all, less political influence on managing their business and abandoning the role of social welfare providers.

Recommendations

To National Governments

Recommendations to national governments aiming to facilitate the participation of SMEs in the energy transition:

- Provide sufficient funds in budgets and in development banks' portfolios for SME energy transition projects.
- Establish a system to support conducting energy audits for SMEs.
- Organize and coordinate the establishment of SME networks for the energy transition (i.e., based on Learning Energy Efficiency Networks – LEEN model) involving chambers of commerce and universities.
- Eliminate barriers for the deployment of prosumers.

Recommendations to national governments aiming to create conditions for the transformation of the current utility business model into a model for "the utility of the future":

- Finalize the unbundling of the power sector, depoliticize the operation of power utilities, and introduce good corporate management practices.
- Support the development of electricity markets by establishing power exchanges and their coupling with regional and EU markets.
- Build wide social consensus on decreasing the use of coal for electricity generation, set up the coal phase-out date, and lead implementation of just transition programs involving power utilities, local governments, and local NGOs.
- Gradually introduce a carbon pricing scheme and use collected funds to support energy efficiency projects and programs for mitigating energy poverty.

- Determine the role of the utilities as integrators of small-scale private distributed generators (prosumers) in the National Energy and Climate Plans (NECP).

To EU Institutions

Recommendation to EU institutions aiming to facilitate the participation of SMEs in the WB energy transition:

- Provide technical and financial support for a bottom-up approach to decarbonization that targets local actors: municipalities, SMEs, NGOs, energy cooperatives, and citizens.

- Support the development of a network-type organizational structure of local actors: (a) network of local governments for low-carbon development (i.e., LINK network) and (b) network of SMEs for energy efficiency improvements (i.e., LEEN type network).

- Support regional cooperation of local stakeholders based on a bottom-up approach to the energy transition.

Pilot projects in the recommended intervention areas involving SMEs have already been started.[4]

Recommendations to EU institutions aiming to create conditions for the transformation of the current utility business model into a model for "the utility of the future":

- Insist on the fulfillment of obligations arising from the Energy Community Treaty especially regarding LCPD/IED directives and market liberalization.

- Enable market coupling with EU electricity and gas markets.

- Encourage regional cooperation in preparing NECPs.

- Provide technical assistance for the introduction of a national and a regional carbon pricing mechanism and a gradual incorporation with the EU ETS.

- Financially support energy transition programs with the condition that a genuine decarbonization plan is adopted and implemented.

- Provide technical and financial support for just transitions projects.

[4] RESET Centre Sarajevo has been implementing LINK and LEEN from 2020. This year the pilot phases will be completed.

The Role of Civil Society in Implementing the Green Agenda for the Western Balkans and Decarbonizing the Economy

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Introduction

Just as the Green Deal is a challenge for EU member states, the Green Agenda for the Western Balkans (GAWB) is a massive challenge for the region and its economies that requires taking urgent and bold steps toward implementation. During times when decarbonization and energy transition are a priority, it falls upon governments of the region to provide the necessary regulatory environment for companies and to drive forward the process which they declaratively support to a great extent. However, implementation is lagging behind. Moreover, the transformation of the energy sector is not the only challenge we are facing, it may not even be the biggest one. Decarbonizing the transport and food production sectors and creating a circular economy, while at the same time ensuring that the transition is socially just, may prove to be an even bigger challenge of which our societies may not even be aware.

To this end, the ultimate goal for the civil society sector is to generate political will to move WB societies from where they are currently towards a decarbonized economy and an implemented GAWB. This paper discusses the roles and challenges of the civil society sector in fulfilling their role in driving forward the implementation of GAWB.

The Roles of Civil Society Organizations and Think Tanks in Promoting the Green Transition

Civil society organizations, think tanks, and researchers in the WB region have worked on issues related to promoting a green transition for a very long time, generating knowledge, gaining experience, and positively impacting the democratic process in relation to these issues. The GAWB now prioritizes the issues these actors have been advocating for over a long period of time. In supporting a successful implementation of the GAWB they play an important role by providing independent research and data, formulating policy recommendations, advocating for change, and monitoring the implementation of legislation.

Their roles in implementing the GAWB can be multiple, but relate mainly to the following:

- Creating space for public dialogue;
- Acting as "agents of change";
- Being watchdogs of the authorities and financing institutions.

At this point in time in relation to the GAWB, the role of creating space for public dialogue is one of the most important, as all stakeholders have different views on the priorities and challenges related to implementing the GAWB. Under those circumstances, CSOs and think tanks often act as the "voice of reason" that tries to promote and facilitate dialogue between all relevant stakeholders. Although this is not a role that belongs exclusively to CSOs, when the discussion comes to a standstill, they often advocate for finding solutions by providing data and research and offering innovative solutions. While their role in this discussion is often at the level of providing recommendations because they have no direct power in executing and implementing, their experience and knowledge can be of great help for institutions and businesses when planning and communicating difficult subjects, such as the transition towards a decarbonized economy. As this transition will inevitably lead to a change in society, CSOs can contribute to facilitating dialogue between stakeholders, on the one hand, and to explaining the change for citizens on the other hand.

This role is directly related to being "agents of change." While facilitating dialogue can be part of bringing about change, making true progress includes many other roles, such as empowering

citizens to act by providing them with relevant information, creating public pressure and increasing the capacity of all relevant stakeholders, including media, to understand and deal with issues related to the GAWB. Further roles of CSOs related to making true progress include pushing for implementation and adoption of new policies that are aligned with GAWB, promoting innovation and innovative practices, and speaking publicly and openly about challenges and opportunities. The GAWB requires that we change our lives completely, and in all sectors – from how we eat, to how we move, to how we transport goods, to how we use energy and resources. All these are reflected in the five pillars of the Green Agenda, but unfortunately, in spite of the Sofia Declaration, the policies of today do not yet reflect this change. CSOs, think tanks, and researchers have the very important role of pushing for reforms of the unsuitable policies, which for certain pillars may turn out to be very demanding and time-consuming.

The role of being the watchdog of the authorities and financing institutions includes monitoring the alignment of policies with the requirements of the GAWB by the authorities and the extent of official commitments being carried out. This also includes holding decision-makers accountable for non-implementation and publicly criticizing the lack of reforms.

Challenges and Barriers to the Role of the Civil Society Sector

When it comes to challenges and barriers, the general difficulties which CSOs, think tanks, and researchers in the Western Balkans region face in their everyday work apply to working on implementing the GAWB as well. Shrinking space for civil society, reduced freedom of speech, political blockades, and low political will to address the challenges are barriers CSOs and think tanks face in their daily work and they try to work around these as well as they can.

Furthermore, the number of organizations which have expertise on and interest in environmental and climate issues in the WB is limited. As an example, the National Climate Coalition in North Macedonia has 30 members (as of October 2021), however only ten actively work on climate issues, while for others this is more of an occasional issue.

Research shows that air pollution and poor waste management are the most visible environmental issues of public concern,[1] however awareness about the causes is low, which in turn results in the public not connecting these most burning issues to the GAWB. CSOs, think tanks, and experts produce plenty of research, recommendations, and policy papers which would help the public and decision-makers make the connection between environmental problems and the GAWB; however, the low capacities for working with the media result in their communications not getting enough media attention. As media coverage for environmental issues and topics related to GAWB is low, raising awareness for decarbonization as well as other pillars of the GAWB is also slow. If we add to this the lack of media freedom in WB countries, the challenge becomes even bigger.

Academia is the source of another big challenge as it plays a very important part in educating the experts and decision-makers of tomorrow. It is up to the universities to teach students to be innovative by constantly integrating new developments into curricula. This is particularly relevant to subjects related to environmental policies, considering these policies get more ambitious every day, causing study materials to become outdated very quickly.

Another challenge is the lack of regional approaches by CSOs to the issue of driving the GAWB forward. While the Action Plan for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans 2021-2030[2] (Action Plan) foresees a multitude of measures for implementing the GAWB, the deadlines and expectations are rather unspecific, leading to lack of clarity on what can be expected until 2030. Therefore, it falls upon CSOs, think tanks, and researchers to coordinate first on the national level and then on the regional level and to make sure the push to implementing the GAWB actually happens. However, coordinated efforts tend to be scarce.

[1] Source: Representative sample research in North Macedonia carried out in 2018 for Eko-svest by Brima.

[2] Regional Cooperation Council (RCC), A*ction Plan for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans 2021-2030,* (October 4, 2021), https://www.rcc.int/download/docs/GAWB%20ACTION%20PLAN.pdf/a2e802a86437b9aa0e3501cffc46d437.pdf (accessed October 28, 2021).

In addition, the incomplete transposition of the EU *acquis* and non-implementation of already transposed legislation make for further challenges for CSOs, think tanks, and researchers. The incomplete transposition of the EU *acquis* often means that while their EU counterparts can rely on certain pieces of legislation in their advocacy efforts, WB organizations often cannot do the same as those legislation pieces are not transposed or aligned with EU legislation. An example are the different emission limit values for air pollution in different WB countries, which in turn means that polluting facilities cannot be held to the same standards. There is a hyper-production of reports on topics related to incomplete transposition and non-implementation of legislation, however their impact is limited for reasons already mentioned above. In view of implementing the GAWB, a potential problem is that policies and strategies are aligned with it, but there are problems with the implementation.

The GAWB would be more of a priority for decision-makers if they had higher awareness on the opportunities it brings. This challenge is partially related to the fact that the problems the business sector identifies in relation to implementing the GAWB are immediate, while the benefits that the CSO sector points to, even though greater, lie in the future and come at a high cost, which is a burden governments have difficulty affording. This results in the business community's voice being heard more strongly as their leverage is more powerful and immediate in comparison to the voice of civil society, which speaks of benefits that lie in the future. Fortunately, the Action Plan coincides with an Economic and Investment Plan for the Western Balkans which foresees as much as 30 billion EUR for the WB in the period 2021-2027. If absorbed appropriately and put to good use for implementation of GAWB-related policies and practices, these funds are able to make a substantial change in the region.

Recommendations for Empowering Civil Society, Think Tanks, and Researchers in Their Roles

In order to empower civil society, think tanks, and researchers in their roles, the fostering of a structured approach to implementing the GAWB is key. The Action Plan for the Implementation of Green Agenda is a positive step, although it remains to be seen how it will help CSOs, think tanks, and researchers in their efforts to foster public discussion on the topic. Empowering CSOs can be done through opening more fora for discussion with relevant stakeholders in a structured manner and by providing space for discussion on how to introduce the necessary change with the least negative impact. Below are recommendations based on the identified challenges, addressed to different groups of stakeholders.

For Decision-Makers

- Build a partner relationship with CSOs, think tanks, and researchers, which can bring multiple benefits to decision-makers at all levels. The civil society sector has expertise on many topics and can help to improve strategic documents, policies, and legislative drafts. It is in the best interest of decision-makers to use this expertise.

- Put to good use the multitude of reports that CSOs, think tanks, and expert researchers produce, where the priorities are highlighted, and creative and innovative solutions are offered. The multitude of reports and analyses produced can be used to push for innovative solutions and help to drive society forward. This is an opportunity for decision-makers which should be used to the benefit of all citizens.

- Speed up the transposition of the EU *acquis*, which will help the general situation of the environment. While the chapter on environment is one of the most costly and difficult chapters to align with, it has the potential to generate savings in other sectors, including health, while at the same time providing jobs, including green jobs.

- Ensure that the energy transition that results from the decarbonization of the economy is just for all members of society. While this is a costly process, support is available from various donors.

- Prioritize the implementation of strategies and policies and the enforcement of legislation, as a key factor for implementing the GAWB. If not implemented properly and by all sectors of society, the GAWB will remain "just another strategy."

For Businesses

- Seek ways to use the opportunities the GAWB offers and to adapt to its requirements very quickly. It will not be possible to move society forward at all if the business sector wants to continue the "business as usual" scenario.

- Work in partnership with the civil society sector on promoting new scenarios and helping to create new policies.

For Civil Society, Think Tanks, and Experts

- Work in partnership with each other on the national and regional level. The main-streaming of GAWB into national policies and strategic documents is a very important advocacy point for CSOs and think tanks. This advocacy would be much easier and more successful if the sector had a joint approach. Coalition building on the topic, both on the national and regional level, can contribute to finding a joint approach, making sure the sector speaks with one voice which will be more easily heard.

- Increase capacities for working with the media. This would help make communications and reports more attractive to media, thus making sure the public sees and reads them. This would, in turn, contribute to raising awareness on the need for the implementation of the GAWB and its acceptance by citizens.

- Make the GAWB part of advocacy efforts, even if only indirectly through supporting coalitions which work on the issue. While it is clear that governments are the ones who need to make the change happen, it is upon civil society to request this change from them and to make sure that the public calls for a society with a decarbonized, circular economy which offers green jobs.

For the International Donor Community

- Program funds should help empower CSOs, think tanks, and researchers by supporting joint actions and coalition building related to GAWB on the national and regional level.

- Program funds that would support the building of partner relationships between decision-makers, businesses, CSOs, think tanks, and researchers, including opening discussion fora where these stakeholders would work together on the thematic challenges related to the five pillars of the green agenda. This would help to create public pressure and political will for implementation.

- Support the transition to a decarbonized economy through funding awareness raising activities and investing in pilot projects related to renewables (solar, wind, energy storage).

- Further support, both politically and financially, the just transition processes related to the energy transition ensuing from decarbonizing the economy.

- Support, both politically and financially, the opening of the space for discussion on all pillars of the GAWB. Considering the GAWB does not entirely consist of energy issues, but includes also other topics, such as transport, food production, and the introduction of a circular economy, it is of utmost importance to widen the discussion to include these further topics, while also supporting advocacy efforts from the civil society sector.

Conclusion

The GAWB brings many opportunities for developing society in a new, innovative direction, where people and the environment thrive together through green jobs, a circular economy, and a decarbonized society. However, for this to happen bold steps must be taken by decision-makers who will have to give direction not only to businesses, but to all parts of society. A business-as-usual scenario will not bring different results to what we have today. Therefore, if we want change to happen, all sectors of society must put their efforts together to the benefit of all citizens.

Just (Energy) Transition in the Western Balkans and the Involvement of all Relevant Stakeholders

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Introduction

The Action Plan for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans was adopted at the EU-Western Balkans Summit in November 2020.[1] While the implementation of the Green Agenda represents a great step towards carrying out energy transition within the region, significant challenges persist when it comes to getting tangible commitments from the governments in the region and carrying out the energy transition process in a transparent, inclusive, and just manner. The main challenges are related to: the transparency and inclusiveness of the policy-making processes; proper implementation of the EU and Energy Community (EnC) *acquis*; a continuation of "business as usual" in the energy sector in spite of formal commitments towards decarbonization; the dominance of public utility companies in energy production; and insufficient cross-sectoral cooperation.

This policy paper addresses the existing challenges to a successful implementation of the Green Agenda and formulates ideas of how to overcome them. A successful implementation of the Green Agenda will bring benefits to the Western Balkan countries, depending on the ability of the governments in the region to ensure full transposition and implementation of the relevant EU and EnC *acquis*, enable transparent and inclusive policy-making processes, establish clear decarbonization paths, and carry out wide societal dialogue on the subject. The European Union should place a just energy transition higher on the agenda of the WB countries' accession processes and should further facilitate the just energy transition process in the region through the Initiative for Coal Regions in Transition in the Western Balkans and Ukraine.

Western Balkans and Decarbonization – State of Play

Legislative processes in the region are strongly shaped by the EU integration process, as all countries of the region are (potential) EU membership candidates. Energy, climate, and environmental legislation as well as state aid policies are also being aligned with the Energy Community Treaty to which all countries are parties. However, legal acts are often being transposed without sufficient assessments and efforts needed for a proper implementation. Annual reports of the European Commission[2] as well as the Energy Community implementation reports[3] illustrate this.

None of the countries in the region has yet adopted a long-term decarbonization plan. For example, none of the countries has adopted a final National Energy and Climate Plan (NECP), nor comprehensive climate legislation that contains all crucial elements of EU legislation (such as emission trading and carbon pricing). There is insufficient reliable data on the greenhouse gas (GHG) inventory system, with Montenegro being the only country to put in place a national GHG inventory system.[4] Furthermore, countries of the region have neither developed nor adopted just energy transition plans, besides North Macedonia which mentions a just transition program as one of the policy measures in its draft NECP.

[1] Regional Cooperation Council, *Action Plan for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans 2021-2030,* (October 4, 2021), https://balkangreenenergynews.com/wp-content/uploads/2021/10/GAWB-ACTION-PLAN-Final-04.10.2021.pdf (accessed October 19, 2021).

[2] European Commission, *Enlargement Package 2021,* (October 19, 2021), https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/strategy-and-reports_en (accessed October 19, 2021).

[3] Energy Community Secretariat, *Annual Implementation Report 2020,* (November 2020), https://author.energy-community.org/enc-author-prd/dam/jcr:0af3b17a-3759-4a23-a2ef-3134784e217c/EnC_IR2020.pdf (accessed October 19, 2021).

[4] Energy Community, *Energy Transition Tracker 2021,* (June 2021), https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html (accessed October 19, 2021).

When it comes to further transposition of the EU and Energy Community legal frameworks in the Western Balkans, the issue of carbon pricing emerges, as countries are yet to introduce carbon taxes. The recently announced EU Carbon Border Adjustment Mechanism could have a significant impact on the entire region. In addition, the emission-trading system, the cornerstone of the EU's climate change policy, has not been introduced in the region either. The replication of EU instruments regarding just energy transition in the region has only recently begun. While a regional platform was developed as part of the Initiative for Coal Regions in Transition in the Western Balkans and Ukraine (which mirrors the Coal Regions in Transition Platform of the EU), there is still neither obligation nor political willingness to implement other EU policy instruments for a just energy transition, such as Territorial Just Transition Plans (TJTP). These plans would contain the following elements: an analysis of the impacts of the transition at the local levels and a plan to address them strategically; an outline of the transition process until 2030; a plan for the transition to a climate-neutral economy; and an identification of the most impacted territories that should be supported.[5]

Key Challenges to Implementing the Green Agenda and a Just Transition

Governments of the Western Balkan Six (WB6) have declared their commitment to decarbonization by 2050 and to the objectives of the GAWB. However, these commitments mostly remain in declarations while "business as usual" persists in reality. Reaching the objectives of GAWB is a challenge that will require significant efforts from all stakeholders, in terms of investments, amendments to legislation, and production and distribution processes in all sectors. Rather than perceiving energy transition and decarbonization as a developmental opportunity for strengthening economies and societies, and for improving public health and living conditions, governments of the region rather see it as an obligation imposed by the European Union.

In this context, there is an evident lack of political will to tackle politically sensitive issues such as the future of jobs in the coal industry. The existing (although incomplete) data show that there are more than 40,000 people working either in coal mines or thermal power plants in the region.[6] The proponents of coal industry continue to influence decision-makers with exaggerated assessments of the future of employment in the coal exploitation sector in the region. While proponents have claimed that overall more than 10,000 jobs will be maintained and an additional 17,000 will be created in the sector, independent research has found that the more likely scenario is one of a reduction of the existing capacities by more than 5,000 jobs.[7] Thus, job losses in the coal sector are impending either way in the WB.

Job losses as a result of decarbonization call for national just transition plans. A just transition incorporates the "leave no one behind" principle of the Agenda 2030,[8] and is one of the preconditions to achieve the clean energy and decarbonization objectives of the GAWB in a sustainable and socially fair manner. Just transition is integrated in the Paris Agreement which points to "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."[9] It should provide new employment and decent work as well as social safety nets for affected workers, communities, and regions. A just transition should be based on meaningful social dialogue at all levels to make sure that the energy transition and decarbonization burden is shared in a fair way. Carrying out a just transition is complex, involving, among others, energy, economic, social, environmental, and education policies[10] and requires cross-sectoral cooperation and long-term planning on the national and regional level.

[5] WWF, *Toolkit for Assessing Effective Territorial Just Transition Plans*, (January/May 2021), https://just-transitions-plan.wwf.eu/upload/WWF%20TJTP%20scorecard%20tool%20overview.pdf (accessed October 19, 2021).

[6] CEE Bankwatch, *The Great Coal Jobs Fraud,* (June 2018), https://bankwatch.org/wp-content/uploads/2018/06/Jobs-study-june-2018-update-ENG-CEE-Bankwatch.pdf (accessed October 19, 2021).

[7] Ibid.

[8] International Labour Organization, *Frequently Asked Questions on Just Transition*, https://www.ilo.org/global/topics/green-jobs/WCMS_824102/lang--en/index.htm (accessed November 25, 2021).

[9] United Nations, Paris Agreement, (2015), https://unfccc.int/sites/default/files/english_paris_agreement.pdf (accessed November 25, 2021).

[10] Linda Clarke and Carla Lipsig-Mummé, *Future Conditional: From Just Transition to Radical Transformation?,* (October 1, 2020), https://journals.sagepub.com/doi/abs/10.1177/0959680120951684 (accessed November 25, 2021).

However, at the moment WB countries do not have national policies or strategies to address this issue (except for North Macedonia). The decision-making processes are strongly influenced by the interests of the public utility companies, which are very dominant in the countries' energy sectors. These state-owned public utility companies are able to influence energy transition processes and policies because their management is inter-related with and influenced by the political parties. These companies are still very hesitant when it comes to setting a clear date on coal phase-out.[11]

The lack of transparency and inclusiveness of the decision-making processes has been observed in all of the countries in the Western Balkans (WB) region, across all policy areas, not just regarding the energy transition. Transparency proved to be most problematic in processes regarding large investment projects. Public participation processes in decision-making are not carried out in an effective and inclusive manner, as to involve interested stakeholders at the beginning of the process when all options are "on the table," but are rather organized pro-forma when policy and legislative documents are practically finalized. In addition, the stakeholder inputs are often disregarded even when they are included. For example, recommendations of civil society organizations, which were advocating for more accountability and transparency of governments in the implementation of the Green Agenda were not adopted.[12]

As already mentioned, WB decision-makers often perceive decarbonization and energy transition as obligations imposed by the EU. This perception is then communicated to the public and mirrored in the policy options selected, leading to conservative, outdated solutions that are not based on recent evidence but rather on political calculations and special interests. Policy solutions communicated to the public in this way do not provide proper information on the decisions made, their consequences, and on other options and potential benefits citizens and all stakeholders could have. Thus, stakeholders are often not properly informed and not aware of the context of their participation in decision-making.

Cross-sectoral cooperation on energy-related issues is low, with policy and political decisions being made within narrow circles of stakeholders. The involvement of the business sector remains sporadic even though the business sector will have to carry a significant share of the efforts needed to achieve the objectives of the GAWB. Regional cooperation between governments regarding energy transition is still on a low level, as most WB economies continue to strive for energy independence.

Furthermore, an incomplete legal framework regulating renewable energy and climate investments in most countries of the WB region creates obstacles for investments in this field. SMEs as economic drivers of local economies also face challenges – they lack resources, financing, as well as technical capacities and knowledge regarding energy transition.

Creating Preconditions for a Just Transition in the Western Balkans

In order to implement the GAWB and reach the decarbonization objectives, a wide societal consensus is needed. The active participation of all relevant stakeholders would be the first precondition for ensuring a just transition, including: line ministries (in charge of energy, climate, environment, employment, education, and social policies, as well as finance and economic development); local governments; trade unions; energy companies; the business sector; civil society; academia; and local communities.

This is especially important when speaking of the decarbonization pillar of the GAWB, since it will require structural changes of all sectors of the economy, from energy to agriculture, transport, construction, urban planning, and virtually everything in between.

In order for this participation to be fruitful and constructive, all stakeholders need to be involved in the earliest stages of decision-making, in order to integrate their interests, perspectives and knowledge in the public policies being developed. For example, trade

[11] Pippa Gallop et al., *PEET-The Political Economy of Just Energy Transition in South-East Europe,* Friedrich-Ebert-Stiftung, (September 2021), http://library.fes.de/pdf-files/bueros/sarajevo/18313.pdf (accessed October 17, 2021).

[12] Pippa Gallop, *A Green Agenda for the Western Balkans – Where are the Teeth?,* Bankwatch, (October 8, 2020) https://bankwatch.org/blog/a-green-agenda-for-the-western-balkans-where-are-the-teeth (accessed October 19, 2021).

unions and coal-reliant communities should be invited to decarbonization and just transition conversations early on. However, it is often the case that precisely these stakeholders are left out of the decision-making process, resulting in their opposition to decarbonization due to misunderstandings or justified fears of job losses. For instance, the recent demands from miners in Republika Srpska[13] and protests of miners in Serbia[14] illustrate the social reaction after these stakeholders were left out of the decision-making processes.

Besides the involvement at an early stage, it is key to encourage and strengthen informed stakeholder participation. All stakeholders need to be aware of and understand the consequences of the decisions being made, of their own roles and options, and need to be given enough time and proper space to voice their opinions and needs. Only when meaningful and informed participation of all stakeholders is enabled can there be potential for cross-sectoral cooperation[15] and long-term planning, on both the national and the regional level.

Cooperation between the public and the private sector is particularly important, as businesses will have to undertake a significant share of efforts in the green transition, including investments in clean technologies and production chains, innovations in product and services design and delivery, and changes in the employment structure. On the other hand, the public sector needs to provide a sound legislative framework on which businesses can rely in their decision-making on investments. Moreover, governments need to secure the rule of law to foster an enabling business environment that promotes competition, transparency, and accountability.

To provide a working framework and an enabling environment for constructive participation of all stakeholders, it is crucial for policy-makers to establish a clear developmental path towards decarbonization, of which all stakeholders are clearly aware and to which they have agreed (or at least had the chance to voice their position). The decarbonization path should be established through a wide societal dialogue that should be participative, transparent, and inclusive as to represent the interests of all stakeholders and to gain their support.

Decarbonization of the society will require sharp shifts from "business as usual" and will have impacts on labor and energy markets, as well as social and education policies, all of which require political courage and long-term vision for the society, which is often missing in short-term programs of ruling parties in the region. These requirements are a challenge for the WB countries considering the lack of rule of law and absence of public authorities' accountability present throughout the region.

The Green Agenda provides a unique supportive framework for putting the countries on the developmental path towards decarbonization, but politicians need to make use of this opportunity. For instance, the Action Plan recently prepared by the Regional Cooperation Council (RCC) for the implementation of the Sofia Declaration on the Green Agenda provides a platform and opportunity for a socially acceptable and just energy transition. If designed in a truly participatory and balanced way, the Decarbonization Committees proposed within the Action Plan are the instrument through which interests of various stakeholders can be represented and accounted for. The tools for achieving this and enabling economically, environmentally, and socially sustainable decarbonization should be the National Energy and Climate Plans (NECPs), as well as just transition plans and programs.

The development of National Energy and Climate Plans[16] is a unique opportunity for transformative and participative policy practices among the WB6, a task all WB countries have committed to under the Energy Community Treaty. However, based on the

[13] D. Tovilović, "Radnici traže hitno uvođenje vanrednih mjera u RiTE Ugljevik", *Capital*, September 23, 2021, https://www.capital.ba/radnici-traze-hitno-uvodjenje-vanrednih-mjera-u-rite-ugljevik/ (accessed September 23, 2021).

[14] N1 Beograd, "Protest rudara i zaposlenih u TENT-u zbog obustavljanja izgradnje Kolubare B", May 24, 2021, https://rs.n1info.com/biznis/protst-rudara-i-zaposlenih-u-tent-u-zbog-obustavljanja-izgradnje-kolubare-b/ (accessed October 19, 2021).

[15] Linda Clarke, Carla Lipsig-Mummé, "Future Conditional: From Just Transition to Radical Transformation?", *European Journal of Industrial Relations,* Volume 26, issue 4 (December 2020): 351-366, https://journals.sagepub.com/doi/abs/10.1177/0959680120951684 (accessed November 25, 2021).

[16] Energy Community, *Energy Community and National Energy and Climate Plans*, https://www.energy-community.org/regionalinitiatives/NECP.html (accessed October 19, 2021).

progress seen so far, it seems that the "business as usual" path will be chosen again. For example, in the early stages of NECP development, Serbia did not conduct wide stakeholder consultations with local communities to be affected by decarbonization, nor were trade unions involved in drafting the document. While North Macedonia has submitted its first version of an NECP to the Energy Community and has included a Just Transition Program as one of the policy measures, other countries are lagging behind, leaving uncertainty as to how a just transition will be addressed.

Development of just transition plans and programs should thus be integrated into national developmental policies. In this process, opportunities for economic advancement should be balanced with increased social spending to safeguard vulnerable stakeholders and should integrate the "leave no one behind" principle, also considering effects on the environment.

Policy Recommendations

Rule of Law

To address the uncertainties for all stakeholders involved, WB governments should:

- Strengthen the rule of law and provide sound legislative frameworks for a just energy transition, in line with GAWB, the Sofia Declaration, the Energy Community Treaty, and EU Climate Law;
- Foster an enabling business environment by establishing a reliable legislative framework and fair market competition;
- Strengthen the implementation of the legislative framework, starting from the stage of policy design in order to prevent implementation challenges.

Transparent, Inclusive and Evidence-Based Policy Development

To create wide societal support for the implementation of the GAWB, national governments should:

- Open the decarbonization policy process and long-term planning to the public and all relevant stakeholders;
- Establish and foster societal dialogue as a platform for participative, transparent, and inclusive policy development that takes into account interests and perspectives of all stakeholders;
- Instigate public participation in early stages of decision-making, when all policy options are still available;
- Increase the knowledge of stakeholders about the importance of decarbonization and the size of challenges ahead of them through education and awareness-raising activities;
- Develop long-term decarbonization plans on partnership principles and evidence-based reasoning, taking local perspectives and knowledge into account;
- Initiate and foster cross-sectoral cooperation and active participation of all relevant stakeholders;
- Effectively integrate the "leave no one behind" principle when implementing the GAWB action plans and achievement of decarbonization objectives as to secure economic, environmental, and social development that is fair towards vulnerable groups (such as local communities, workers, youth, etc.).

Long-Term Planning in Line with EU 2030 and 2050 Targets and Regional Cooperation

In order to facilitate coordinated policy and decision-making across the different countries and levels of authority, WB governments should:

- Immediately start the long-term planning, on both national and regional level, with 2050 as a horizon. Development of NECPs should be used as an opportunity to align energy and climate policies;

- Clearly communicate long-term national decarbonization plans towards all stakeholder groups;

- Create just transition plans, including social plans for different stakeholder groups based on their interests and the vulnerability to the transition process;

- Increase regional cooperation to promote a region-wide energy transition and to enable knowledge-sharing in this field. Existing mechanisms such as the Regional Cooperation Council, Regional Youth Cooperation Office, as well as the Energy Community, Just Transition Initiative, and Ministerial Council should be effectively used in order to support the implementation of GAWB.

Role of the European Union in the Western Balkans' Just Transition

The EU and the international community should:

- Place just transition higher on their priority list in the accession process of WB countries. For example, country reports of the European Commission within the annual enlargement package could dedicate space to assess and address progress in achieving GAWB objectives and other related international commitments;

- Support the WB in replicating the process of developing Territorial Just Transition Plans to ensure involvement of all stakeholders;

- Further facilitate the just transition through dedicated funds attached to the Initiative for Coal Regions in Transition in the Western Balkans and Ukraine;

- Establish measurable progress made by countries not just in political and economic criteria, but also in decarbonization objectives and green transition as a conditionality for providing financial support to the region;

- Direct the various capacity development programs, which the EU is providing to WB countries, at increasing the capacities of relevant stakeholders. Programs for ministries in charge of energy, environment, education, and workforce, various state agencies and institutes should be aiming to strengthen their capacities to plan, implement, and monitor effective just energy transition policies. Programs dedicated to the civil society (such as Civil Society Facility) should target actors such as NGOs, unions, academia etc., and support them in effectively participating in energy and just transition policy development and independent monitoring, thus increasing the accountability of public authorities.

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