

American Chamber of Commerce
North Macedonia

Green Transition Position Paper: Policy Actions

Recommendation

Accelerate the adoption of renewable energy sources and optimize energy efficiency to reduce greenhouse gas emissions

Despite positive trends indicating ongoing decarbonization in North Macedonia, the country's growth remains highly carbon intensive. The domestic energy sector is three times more carbon-intensive than the EU average, with lignite and oil dominating the primary energy supply, accounting for more than 70% (World Bank Group, Country Partnership Framework for the Republic of North Macedonia, 2024-2028, 2023). This reliance on fossil fuels exacerbates climate change and significantly negatively impacts public health by causing poor air quality, especially in urban areas. Conversely, North Macedonia has substantial potential for renewable energy, with abundant solar and wind resources. Furthermore, aligning with EU climate and energy policies is crucial for North Macedonia's EU integration process. Committed to reducing greenhouse gas emissions under the Paris Agreement, the country must accelerate the adoption of renewable energy and enhance energy efficiency, not only to meet these international obligations but also to pursue a green transition.

Actions:

- Upgrade the national electricity distribution grid to handle increased input from renewable sources by advancing digitalization through investments in smart grids, smart meters, and storage solutions, while ensuring robust cybersecurity.
- Expand existing and provide new financial incentives, such as subsidies, tax breaks, and low-interest loans, to encourage businesses and households to invest in renewable energy projects across industrial, commercial, and residential sectors.
- Develop and implement a national system for the continuous monitoring of greenhouse gas emissions from all stationary sources, including necessary parameters for conducting a comprehensive emissions inventory needed for preparing reports in line with North Macedonia's obligations as a signatory of the Paris Agreement.
- Form a high-level task force within the Ministry of Energy, Mining, and Mineral Resources that will be responsible for the implementation, monitoring, and periodic review of the strategic recommendations outlined in the Energy Development Strategy of North Macedonia 2040.

- Introduce carbon pricing mechanisms, such as a greenhouse gas emission quota system aligned with the EU Emission Trading System (ETS) or performance-based tax adjustments for businesses, to incentivize reductions in greenhouse gas emissions and generate revenue for renewable energy investments.
- Establish a system of green energy certificates to incentivize the production and use of renewable energy and create a dedicated state body within the new Ministry of Energy, Mining, and Mineral Resources to regulate and issue green energy certificates.
- Facilitate administrative procedures for establishing photovoltaic power plants on private property or through multiple annual concessions.
- Introduce stringent control mechanisms for all types of fuels imported into the country, with a strong emphasis on verifying their origin and quality.
- Actively seek and leverage international funding mechanisms and EU financial instruments aimed at supporting renewable energy projects and energy efficiency initiatives.
- Foster public-private partnerships by encouraging collaboration between the government, private sector, and international organizations to co-invest in renewable energy projects and infrastructure development.
- Fund research and development in renewable energy technologies and energy efficiency measures, and foster ongoing collaboration among universities, research institutions, and the private sector to drive innovation.
- Develop centralized heating networks for all major cities with populations over 50,000, with a primary focus on Skopje, and introduce subsidy programs to ensure that socially vulnerable citizens have access to affordable heating.
- Develop infrastructure for charging electric vehicles across the country to support the transition to electric mobility.

Implement and support the adoption of effective waste management practices

With a heavy reliance on polluting and inefficient landfills as well as an almost non-existent recycling system, the country significantly lags behind in waste disposal. Indeed, the recycling rate is a mere 0.3%, and around 1,000 illegal landfills are still in operation (European Environment Agency, “Municipal Waste Management in Western Balkan Countries: North Macedonia Profile”, 2021). It means that a substantial portion of waste remains uncollected or improperly managed. Improperly managed waste can lead to health hazards, environmental

degradation, and even a decrease in potential investment, as investors today typically seek sustainable environments for their investments. On the other side, effective waste management is crucial for a successful green transition, addressing key environmental, economic, and social challenges. Also, adopting circular economy practices from the private sector can enhance these efforts by reducing waste generation, promoting recycling, and extending the lifecycle of products and materials.

Actions:

- Provide subsidies, establish grant programs, and offer tax incentives to support businesses that invest in developing waste management systems and implementing circular economy practices focused on maximizing resource efficiency.
- Foster collaboration between the public institutions and the business sector to promote circularity in packaging waste management by improving recycling infrastructure and implementing a Deposit Return Scheme (DRS) to enhance recycling rates and reduce environmental impact.
- Remove all illegal landfills and establish regional centers for waste processing, removal, and disposal, with particular emphasis on the first country-wide investment in solid waste infrastructure supported by the EBRD and other international organizations.
- Develop and upgrade waste disposal infrastructure in every municipality to improve waste collection, sorting, and recycling facilities.
- Promote sector-wide collaborations to develop joint waste management and circular economy initiatives.
- Engage with international organizations and partners to access funding and technical assistance as well as exchange knowledge.
- Promote the reuse of waste materials for energy generation by installing a national incinerator that converts waste into electricity, operating under strictly controlled conditions and comprehensive safety measures to minimize environmental impact.
- Provide system support in the form of assistance, resources, and infrastructure necessary to enable collective waste collectors to perform their duties efficiently and effectively.

- Strengthen the capacities of environmental inspectors at both local and central levels to enforce sanctions for the disposal of unsorted waste.
- Modernize public enterprises responsible for waste management.

Improve water quality management

While the legal and policy framework for integrated water management in North Macedonia, in alignment with the EU water acquis, is largely established, the European Commission's 2023 progress report indicates that the pace of implementation and enforcement remains slow (European Commission, North Macedonia 2023 Report, 2023). Furthermore, in the country, only about 16% of the total wastewater is treated, and current data indicate that there has been no significant increase in the construction of new treatment facilities. This underscores the urgent need for intensified efforts to improve wastewater treatment infrastructure and management (State Statistical Office, Environmental Statistics, 2024). This emphasizes the critical need for comprehensive strategies to prevent water contamination, ensuring functional water systems. Prioritizing water protection would help in creating sustainable communities, conserving vital resources, and supporting long-term economic growth.

Actions:

- Prioritize the construction of new and the upgrading of existing capacities for collector systems and purification stations.
- Provide financial incentives, such as subsidies and tax relief, for businesses that invest in advanced water pollution control technologies and infrastructure, while defining clear eligibility criteria and compliance requirements to ensure these incentives effectively target significant pollution reduction efforts.
- Establish a national system for the continuous monitoring of pollutant emissions in water and ensure regular reporting and public access to data to promote transparency and accountability.
- Strengthen the capacities of Public Health Centers and laboratories responsible for examining and monitoring water quality by providing training, upgrading equipment, and expanding facilities to improve their ability to detect and respond to water quality issues.
- Develop a strategy for the Blue Economy in collaboration with stakeholders, particularly representatives from key industries, to protect and sustainably use freshwater resources, promoting sustainable practices in agriculture,

production facilities, and municipalities to minimize negative environmental impacts.

- Create a platform for the public to report cases related to water pollution, ensuring that first-time offenders are not fined but receive a warning and guidance on compliance.

Enhance the Legal
and Policy
Framework

Effective environmental regulations and policies are fundamental to guiding and facilitating the green transition. They provide the clarity, support, and accountability necessary for businesses, governments, and citizens to engage with and support European environmental practices. According to the European Commission 2023 progress report, North Macedonia has a weak level of preparedness in the area of environmental protection and movement towards a green transition, with limited progress during the reporting period (European Commission, North Macedonia 2023 Report, 2023). This highlights the need for immediate and decisive actions to advance the legal framework, fulfill commitments under the Paris Agreement, adopt relevant legal solutions, and implement green development plans. By strengthening the legal framework, a structured, fair, and efficient transition to a greener economy could be ensured.

Actions:

- Adopt the following laws as soon as possible to allow sufficient time for the preparation of national capacities and adoption of by-laws, while also preserving the necessary time for stakeholder adaptation:
 - Law on Climate Action,
 - Industrial Emissions Control Law,
 - Law on Renewable Energy Sources.
- Adopt a National Green Taxonomy and establish a defined transition period for its full implementation in North Macedonia, following the EU's example and best practices.
- Conduct a thorough evaluation of the existing legal and policy framework related to sustainable compliance to identify shortcomings and areas for improvement, simplify burdensome administrative procedures, and introduce mechanisms to encourage and support companies in adopting and excelling in sustainable practices.
- Further strengthen the capacities of public institutions to implement existing regulations related to the green transition at all levels of central and local government and ensure the effective execution of adopted strategies.
- Transpose the following acquis from the European Union:
 - Urban Wastewater Treatment Directive (UWWTD)

- Water Framework Directive (WFD)
 - Environmental Quality Standards Directive (EQSD)
 - Restriction of PFAS (Per- and polyfluoroalkyl substances) in accordance with the amendment of REACH (Registration, Evaluation, Authorization and Restriction of Chemicals).
- Develop and implement appropriate regulations requiring every construction object to possess an energy certificate as a prerequisite for sale or rental transactions, including adopting by-laws in alignment with the Law on Energy Efficiency and transposing relevant EU directives concerning the energy performance of buildings and energy audits.
 - Define the legal framework and by-laws within the Law on Energy and harmonize the Construction Law to enable the establishment of energy storage facilities by independent operators and operators of photovoltaic power plants.
 - Introduce regulations to define "Civil Energy Communities" and "Renewable Energy Communities" in alignment with the EU Legal Package "Clean Energy for All Europeans" to initiate processes for civil associations in the production, storage, transmission, trading, and mutual exchange of energy.
 - Create a framework to encourage companies to obtain appropriate certifications according to the ISO 14000 standards for environmental management.
 - Harmonize the Rulebook on the Method of Collection and Amount of Compensation for the Service of Communal Hygiene Skopje with the Law on Waste Management to enable payment based on the quantity or volume of generated waste, and subsequently apply this to all other cities.
 - Encourage public procurement of goods and services from companies that prioritize sustainable practices, promoting environmental responsibility and supporting the transition to a green economy.

Build the economic resilience of society

While there are initiatives in the country aimed at promoting sustainability, economic resilience is currently hampered by structural issues, including high youth unemployment rates, limited access to finance for green projects, bureaucratic hurdles, and a lack of robust infrastructure. Therefore, North Macedonia must focus on policies and programs that support building economic resilience, as it ensures that society can withstand and adapt to environmental, economic, and social shocks, providing a stable foundation for sustainable development. Indeed, building economic resilience in North Macedonia is essential not only for a

green transition but also for ensuring the overall well-being and prosperity of society.

Actions:

- Strengthen the operational capacity of the National Council for Sustainable Development by enhancing its resources, authority, expertise, transparency, cross-sector collaboration, and leveraging international support and best practices.
- Provide incentives for businesses to hire and train young workers and foster youth entrepreneurship in collaboration with successful business leaders through the creation of mentorship and incubator programs.
- Facilitate funding for SMEs and green projects by simplifying and streamlining the application processes for financial support programs.
- Foster a culture of community support by enhancing the overall system for donations and sponsorships, with an emphasis on streamlining tax incentive procedures.
- Introduce measures in line with the EU Work-Life Balance directive in the new Law on Labor Relations, including parental leave, remote work options, workplace flexibility for parents of children up to 8 years old, etc.
- Protect vulnerable populations and ensure social stability by revising the definition and measures for the protection of vulnerable consumers in accordance with market freedom principles and involve all stakeholders to ensure comprehensive protection and support.
- Develop and implement educational programs and public awareness campaigns to inform citizens and businesses about sustainability practices and their benefits.
- Support and enhance the sustainability and productivity of the agriculture sector to leverage strong agricultural foundations towards food production with an emphasis on organic products by:
 - Providing financial assistance and technical support for modernizing agricultural infrastructure.
 - Promoting local food production and reducing reliance on imports through subsidies and incentives for the agriculture and food processing industries.
 - Enhancing access to markets for agricultural products through improved logistics and distribution networks.