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Guidelines for Sida's
environmental cooperation

South Eastern Europe



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1. Summary

Many countries in South-East Europe suffer from serious environmental consequences from the recent Balkan conflicts, further aggravated from a long period of neglect and mismanagement of natural resources under the previous socialist system. Environmental quality and ecologically sustainable development are key challenges and requirements for enabling peace, stability and economic development in all the countries in the region. The region's ecosystems, soils and watercourses are threatened from past and present pollution. Emissions are high despite the low level of economic and industrial development. Government agencies need to strengthen political and institutional capacity to address environmental problems and enforce regulations. Municipalities need capacity to respond to the needs of the citizens for access to water, waste removal, heating. Increased environmental awareness and consideration are needed in the private and public sectors and in society as a whole.

The main aim of the Swedish development cooperation with South-East Europe is poverty reduction, and European integration through the EU Stabilisation and Association process (SAp). Sida's interventions in the region should be pro-poor and help bring about equitable and sustainable development, and address social and gender issues. Cooperation through Sida shall further facilitate and support the SAp and its requirements on environment.

These guidelines address environment as an area of cooperation. This should complement Sida's overall approach to environmental protection in development, which emphasises the responsibilities of all sectors of society to integrate and mainstream environmental aspects. Sida's environmental cooperation aim to link regional and national environmental reforms to improvements and sustainable development in local communities. The environmental guidelines complement the individual country strategies and should be coherent with these.

Targeted areas for support are outlined in the following.

Environmental policy development and capacity building

- Measures for strengthening conditions for environmental protection and sustainable development as part of the overall reform and development process;
- Capacity building of environmental administration and authorities in

order to develop policy, adopt and implement legislation and international agreements, and to agree and cooperate within the region;

- Development of environmental assessment, monitoring and reporting structures for government agencies;
- Support to implementation of national environmental priorities;
- Environmental awareness and knowledge at higher education institutions;
- Regional capacity building in form of regional training programmes related to European environmental standards;
- Regional environmental cooperation to comply with regional agreements related to transboundary resources.

Environmental protection – maintenance of ecosystems and their functions

- Strengthening national and local environment authorities, removal of environmental threats and ecologically sound management of ecosystems.
- Capacity building for management and maintenance, assessment and monitoring of sensitive forest, mountain, river, lake and marine ecosystems.

Environmental infrastructure and technology

- Support to investments in water and wastewater, waste management and heating, aiming at reforms of the municipal service sector and to reduced emissions, in cooperation with national and international programmes and agencies for infrastructure development (including feasibility studies, business and organisational development, project implementation support, and investments leading to reduced pollution);
- Support to cleaner production technologies and management in industry, through capacity building for technology assessment, energy efficiency, environmental and industrial policy, data management, health and safety, environmental management systems, and knowledge dissemination.

Environmental improvements in local communities/municipalities

- Support to demand-driven approaches for environmental improvements where local communities prioritise, decide and share the costs for infrastructure improvements, and take responsibility for operation and maintenance;
- Efforts for physical planning and improved access to environmental services in urban areas, through participatory and transparent planning processes.

Requirements for Sida support are summarised in the following:

- Conditions in place for adequate and transparent processes with ownership, commitment and participation of the local partner;
- For infrastructure improvements environmental impacts should be validated and proposed investments affordable for users;

- Conditions in place for realistic financing of proposed investments and Sida's funding additional to local contributions and/or external loan financing.

Sida does not:

- Support disperse and small projects and interventions not linked to ongoing activities where Sida is active;
- Support institutions with external consultancy services that are not clearly related to capacity building within the targeted institution;
- Support infrastructure improvements that do not address institutional aspects.

Sida's resources involve:

- Programming and coordination within the framework of country strategies for Swedish development cooperation;
- Flexible instruments: Grant and credit financing, co-funding, cooperation with international organisations, government institutions, NGOs;
- Field representation in Belgrade, Pristina, Sarajevo, Skopje, Tirana and Zagreb.

2. Introduction

This document has been developed as a response to the need to formulate guidelines for Sida's environmental cooperation with the South-East Europe region. It aims at describing Sida's approach and priorities for support to interventions with environmental improvements as chief objective. It should further give guidance for project and programme formulation.

The guidelines address environment as an area of cooperation and focus on environmental threats and risks, and environmental sustainability. This should complement Sida's overall approach to environmental protection in global development, which emphasises the responsibilities of all sectors of society to integrate and mainstream environmental aspects. While basic principles and assumptions presented are relevant also for interventions where environment is mainstreamed, the guidelines are intended as tools for Sida support aiming at enabling environmental protection and environmental services. Specific recommendations relate to interventions aiming at improved environmental protection, environmental management and policy framework and pollution reduction and remediation measures.

The guidelines have been developed by Sida-East (now EUROPE) and INEC/URBAN and based on discussions with Sida field officers, environmental authorities, other financiers and actors in the region, and existing documentation and reports. The guidelines are chiefly intended for use by Sida staff, while a summary is provided to give cooperation partners and other actors an overview of Sida's priorities and areas of involvement.

3. Policy framework

Over the past decades, an international consensus has been established, confirming that environmental quality and ecologically sustainable development are requirements for enabling a better life for the world's population. International and regional agreements and conventions are important entry points for policy dialogue and consequent action. In Appendix 1, international, pan-European and regional conventions and commitments that are highly relevant for environmental cooperation in the Western Balkans are summarised.

4. Sida's role

4.1 Environment issues in relation to Swedish development objectives

Sida's interventions in the Western Balkan region are guided by Swedish policies on development, with poverty reduction as the main goal. Pro-poor, environmentally sound and sustainable development covers broad spectra of use and management of natural resources and global goods, production and consumption patterns, pollution control and maintenance of ecosystems and their functions. This approach has been comprehensively elaborated by the parliamentary committee Globkom which presented its conclusions regarding Swedish international development cooperation in March 2002. It was confirmed in a parliamentary bill in 2003, which presents an integrated policy for global development to help bring about equitable and sustainable development. Environmental aspects of poverty are also thoroughly addressed in Sida's overall strategy for poverty reduction, *Perspectives on Poverty* (2002).

Further guidance is given in country strategies adopted by the Swedish government and in annual appropriation letters. Sida should in cooperation with other donors continue to support the development of national poverty reduction strategies (PRS). Sida should, in the development cooperation with the Western Balkan countries, support approximation to European structures and political and economical integration in Europe, through the European Union Stabilisation and Association process (SAP), and contribute to increased stability and regional cooperation. The recently revised country strategies for Kosovo, Bosnia and Herzegovina and Macedonia include environmental cooperation as an area for cooperation. During 2003, country strategies for Albania and Serbia and Montenegro will be revised, where environmental issues will be included. Sida's support to Croatia is expected to focus on already established cooperation (not environment) as part of an exit strategy for the development cooperation and a widening of the normal relations between Sweden and Croatia. Participation from Croatia will however be sought in regional interventions in the area of environment.

Sida should also, where appropriate, work together with Swedish authorities and organisations, to make the most of Swedish knowledge and experiences of international development cooperation. Environment is an area where Sweden often takes a lead in international policy devel-

opment. Further, Swedish actors in the public and private sectors have considerable experience, knowledge and products in this field that are well suited for development cooperation.

4.2 Sida's action plan for environment

Sida has extensive experience and specific priorities for environmental cooperation. Priorities and targets are given in Sida's action plan for environment, and in sector strategies and policies. Sida produced reports and policy documents with relevance for environmental cooperation in the Western Balkan region are listed in Appendix 2. Areas for interventions are broad and cover use of natural resources (water, agricultural land and forests), urban development, the energy sector, legislative framework and administrative capacity, NGO and civil society involvement. The environmental impacts of planned actions are assessed for all projects. Internationally recognised principles as the Precautionary Principle and the Polluter Pays Principle are guiding in assessment. Interventions that maintain non-sustainable patterns and hinder necessary changes are not supported.

5. Current situation, environmental threats and problems

5.1 Nature and geography

The region is rich in natural resources, agricultural land and forests, ores (coal, copper, zinc, lead) and a high level of biodiversity. In terms of water resources, it is among the water-poor areas of Europe, and the vast majority of renewable water sources are shared between several countries. The greater part of the territory drains into the Danube River, and otherwise into the Mediterranean and the Adriatic Sea. As much as 20% of the territory could be classified as degraded areas due to erosion, open mining pits or waste disposal, and war damages. A few percentages of the land have been designated as protected natural areas. After rapid urbanisation in the 70's and 80's in former Yugoslavia, continued in the 90's when it escalated also in Albania, more than 50% of the total population of approximately 20 million people live in cities or larger towns.

5.2 The context: post-conflict transition countries in Europe

The past decades have been characterised by collapse of existing structures, conflicts and post-conflict situations. Whereas most other former socialist countries in Central and Eastern Europe entered the road to transition in the early 1990's, the outbreak of the Balkan conflicts stopped the reform process. Environmental consequences are severe, from the wars and from the long period of neglect and mismanagement of natural resources under the previous system.

5.3 Institutional framework, legislation, administration, capacity

A major barrier to addressing environmental problems is the lack of institutional and political capacity in government agencies to enforce regulations. The environmental administration over the past decades can best be described as an institutional vacuum, with complex and detailed legislation but inadequate monitoring and lack of coherent strategies. Environment issues have been the responsibility of several branches of government, with little coordination (under the ministries for health, industry, agriculture, planning etc.) Inspectors, permit issuers and monitoring agencies have little capacity and enforcement is weak. Presently, all countries are in the process of developing institutions and legislation regarding environment.

5.4 Environmental threats and problems

Threatened ecosystems

The maintenance of the region's forest, mountain, river, lake and coastal ecosystems is crucial for conservation of biodiversity and protection of watercourses. Natural reserves and ecologically sensitive areas are threatened from continuous environmental degradation. Encroachment from agricultural practices and animal grazing, infrastructure and energy generation, mining and quarrying, fuelwood gathering, continued spread of hazardous substances and chemicals, increased tourism and settlements contribute to this. In response to these threats, remediative and preventive actions are required. Adherence to international environmental agreements and establishment of national priorities are part of this, but depend on compliance and implementation on local level.

Health risks

Environmental threats facing people are also directly hazardous to human health. Various diseases are associated with poor water and sanitation, use of low-quality fuel and poor emission control from traffic, home heating and industries, exposure to hazardous chemicals and heavy metals, where the higher risks are borne by the poorest and most vulnerable groups. Improved environmental services and better household environments may be the most worthwhile for raising the standard of living and well-being for poorer groups. For former socialist countries, approximately 20 % of the burden of disease can be attributed to environmental factors. While this share is similar to the portion for established market economies, the overall rate of disease is 50% higher in Eastern Europe than in EU countries.

Pollution sources

Emissions are high despite the low level of economic and industrial development. Energy supply in the Western Balkan region is mainly based on fossil fuels (lignite, coal) and characterised by heavy environmental impact from emissions, large losses and inefficient use. Industries operate with outdated technology, cleaner production technology and practice and treatment options are seldom used. Airborne emissions are to a large extent due to inefficient use of energy, lack of flue gas treatment, poor quality of fuel, old vehicle fleet and increasing road traffic. Emissions to water bodies from untreated industrial and municipal wastewater and from the substantial livestock breeding are extensive. Additional strain on water bodies comes from drainage and surface waters from waste landfills, slag and ash depots.

5.5 Environmental conditions in local communities and municipalities

Immediate environmental concerns in local communities and municipalities are basic: functioning water supply, sanitation, vital infrastructure services to provide decent living conditions. Municipalities have in general inadequate capacity to respond to the needs of the citizens for access to water, waste removal, heating, and with serious health risks and detrimental effects on the surrounding environment – eutrophication and

pollution of waterbodies from untreated wastewater and leakage from waste dumps, greenhouse gas emissions and uncontrolled fires from landfills, pollution from local industry and commerce, emissions from deteriorating district heating installations, individual boilers, small-scale wood firing contributing to acidification, climate change, health risks. Municipal governance structures are weak, lack capacity and determination to include environmental concerns in management, planning and prioritising of activities, investments and use of municipal resources.

Municipal utilities and environmental services

Local authorities have during the past decades not been able to invest, maintain and operate the existing infrastructure assets, which are run down and deteriorating. Even earlier, the service systems were characterised by the centrally planned economy, where services were provided almost for free, with low efficiency, resource-consuming and with little concern for the environment. Utilities have a history of being run with inappropriate technical systems, inefficiently managed and with unrealistic attitudes towards service costs and prices. Capacity in the smaller municipalities and utilities is in general very low, focusing on day-to-day operations. Utilities in the larger cities are largely overstaffed but with inadequate management.

Transfers practised for provision of services, e.g. from public utilities as water and heat supply, waste management, public transportation, etc. are a heavy burden on municipal budgets as services are heavily subsidised. Efforts to operate on a cost-recovery basis are slow to implement and politically sensitive as they lead to multiple increase of tariffs and notable costs for individual households.

Waste handling

Water and heating services are often organised and managed by municipal utilities. Waste handling is also organised, although managed in a way detrimental to human health and to the environment. Contractors remove waste from urban areas and dump it at accessible sites, uncontrolled but easily identified and well known. People live on the premises and gain their income from sorting through and collecting refuse. This is obviously high-risk work, but as the recycled metal, paper etc. has considerable market value, these practices cannot be expected to stop. On most waste dumps in Eastern Europe, marginalised people earn a living from scavenging/recycling. It is also common practice for municipalities to have informal arrangements with recyclers for carrying out this work.

Industry – past and present pollution

Large industrial complexes have for decades been main contributors to environmental degradation. Little environmental concern during the intensive industrialisation after the second world war led to serious degradation of soils and watercourses. This includes ash dump sites at major coal power stations, open lignite mining areas and other mines, toxic build-up in sediments downstream industrial complexes, soil contaminated with oil, heavy metals, other hazardous substances. The costs and responsibilities for remediation of past pollution need to be addressed, not least in the privatisation process of government owned

industries. Large industries have limited treatment capacity, often discharging wastewater after rudimentary pre-treatment into municipal sewerage systems, not adapted for such wastewater (e.g. from chemical, petrochemical, metal, paper, food and textile industries.) The growth of small-scale enterprises and workshops directly connected to municipal systems add to the problem. Municipal wastewater treatment is in itself inadequate, with capacity to treat not more than a fraction of the total amount of wastewater from households.

Urban settlements

Increasingly in the region, spontaneous settlements are established. Some consist of shacks on wasteland, other of well-designed and constructed houses, although all with poor access of infrastructure as roads, water supply and sanitation, electricity etc. This development is driven both by the immediate need for housing and shelter, and by the increased potential for developing areas for commercial use, tourism. Local authorities have little experience, capacity or tools to deal with these issues. Urban planning, permitting and land use regulations exist but are sometimes used in the wrong way, e.g. to further separate ethnic groups. Land use and property rights, real estate and construction are also areas where criminal practices and corruption are widespread.

6. Environment in relation to regional and country priorities

Country priorities after the years of conflicts concentrated on immediate reconstruction. The international community supported this along with improving human rights and enabling people to return to their homes. Today the countries in the region are increasingly focusing on economic development and on integration into European structures.

Sustainable development and economic growth are key challenges for the countries in the region. There are several policy and political aspects on national and regional levels that need to be addressed with focus on environmental aspects. For countries in transition with former centrally planned economies, reforms in environmental protection and management are essential, and can also contribute in strengthening the overall reform process. While one aim should be to reduce emissions to air, soil and water, development of effective environmental policy, legislation and regulatory systems and sustainable production and consumption patterns are also key objectives. Improved environmental standards will bring benefits in terms of reduced pollution but also facilitate trade and investment. Addressing the many environmental problems facing the countries is closely linked with the progress made in implementing important structural reforms. Ensuring sustainable and effective methods of natural resource management, assessing the real costs of environmental and infrastructure services and elimination of environmentally detrimental subsidies are some of the measures that must be taken. Increased environmental awareness and consideration are needed in the private and public sectors and in society as a whole.

Donors have since the end of the 1990's increasingly aimed at institutional development and capacity building to support the reforms required to achieve sustainable development and growth. Key elements in this process are the development of national Poverty Reduction Strategies (PRS) and EU approximation measures. While environmental concerns are accepted as basic requirements for sustainable development in general, this need to be considered in the PRS process. Environment is also one of the most complex and regulated issues in EU legislation and will require considerable efforts and resources.

Assessments of the state of the environment have been by the respective governments, in preparation for the World Summit in Johannesburg 2002. The environmental situation in the region has also been compre-

ensively assessed in recent Environmental Performance Reviews by UNECE, and in Environmental Sector Reviews (World Bank). The Strategic Environment Assessment financed by Sida by REC in 2001 covers all the countries in the region and Kosovo. All countries are also involved in developing or implementing National Environmental Action Plans, listing priority measures and ways for addressing the problems.

7. Regional environmental cooperation in the Western Balkans

Environmental issues are included in efforts aiming to bring peace, stability and economic development to the region, and environment has a prominent role within the European Union approach to the region through the Stabilisation and Association process (SAp), and within the Stability Pact for South Eastern Europe (launched in 1999). Regional partnerships to protect and improve the environment in the region include the regional Environmental Reconstruction Programme (REReP) and the Danube-Black Sea Task Force (DABLAS).

7.1 Environment within the EU Stabilisation and Association process (SAp)

The Stabilisation and Association process involves Albania, Bosnia-Herzegovina, Croatia, Macedonia and Serbia-Montenegro including Kosovo and focus on EU harmonisation activities. EU has a leading role in the environmental cooperation, in terms of resources and through setting policy objectives. The SAp emphasises regional cooperation and includes requirements on environment. Eventually, signing a Stabilisation and Association agreement (specific for each country) will demand actions leading up to compliance with the *aquis communautaire*. The environment chapter is one of the most heavy in terms of legislation, and investments, for reduced emissions to and protection of air, soil, water. Experience from the accession and candidate countries also show that the environment chapter is among the most difficult for the countries to comply with, without long transition periods and substantial financial support.

7.2 Stability Pact for South East Europe: Regional Environmental Reconstruction Programme (REReP)

Environment was an early inclusion in the regional cooperation provided by the Stability Pact. The Regional Environmental Reconstruction Programme (REReP) under the EU Commission aims at coordinating efforts for institutional and civil society reform in the countries within the Stability Pact (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Kosovo under UNMIK administration, Macedonia, Romania and Serbia-Montenegro). The cooperation address institution building, support to environmental civil society, and, to some extent, rehabilitation projects to

reduce environmental health treats. Through REReP, environmental cooperation and networking in the region have been strengthened. While initially focused on mobilising support for a number of "Quick Start" projects, REReP's activities may increasingly be focusing on policy dialogue.

7.3 Danube –Black Sea Task Force (DABLAS)

The Danubian countries of the region (Bosnia and Herzegovina, Croatia, Macedonia and Serbia-Montenegro including Kosovo) participate in the Danube-Black Sea Task Force (DABLAS). DABLAS aims at improving coordination between the Danube and Black Sea Commissions and is currently developing a priority investment programme for key hot spots of the Danube Black Sea ecosystem in cooperation with International Financial Institutions. The approach taken is similar to the HELCOM Baltic Sea Action Programme, focusing on reducing emissions from municipal wastewater.

7.4 Transboundary resources

Within the region, there are several other areas where international agreements on natural resource management are being developed. A recent example is the Sava river basin, where Bosnia-Herzegovina, Croatia, Slovenia and Yugoslavia, signed a Framework Agreement within the Stability Pact for Southeast Europe in December 2002 and established a Sava River Commission. The Ohrid/Prespa lakes area and transboundary resource between Greece, Macedonia and Albania, the Skadar lake shared between Montenegro and Albania are other regions governed by international agreements.

8. Financing/Donor agencies, activities and priorities

The international support for environment is increasing, mainly through the extensive EU funding and the International Financing Institutions (IFIs) entering into this area. Efforts up to date to a large extent involve policy formulation and development of legislation, environmental clean-up projects, local environmental efforts and NGO support. Support to environmental services and remediation of infrastructure is starting to shift from initial emergency repairs and reconstruction, towards increased capacity building and towards enabling external financing on market conditions. There is an increased awareness of the need to establish ownership and responsibility with local actors and project owners, often overlooked or bypassed in the immediate emergency investments.

8.1 EU/CARDS

EU approximation is a strong force for reforms and policy change in the environment area, and EU through CARDS (Community Assistance for Reconstruction, Development and Stabilisation). The CARDS programme will take a leading role, with its large resources and focus on underpinning the SAp. Moving towards EU standards in the environment area will demand structural changes in legislation and administration set-up and extensive investments in the public and private sector. The CARDS programme 2002–2004 indicates approximately 110 M euro for support to the environment in the countries, of which approx. 8 M euro will be earmarked for regional activities. The CARDS environmental support focuses on institutional strengthening and capacity building. While no funds are expected to be used for investments, preparatory measures aiming to attract loan funding may come. In addition, the CARDS energy programme is substantial, with a budget of approximately 500 M euro.

8.2 The United Nations

Of the UN family, UNDP, UNEP and UNIDO contributes comprehensively to the environmental area. UNDP is the Global Environment Facility (GEF) partner and also runs several programmes for environmental policy development and capacity building in the region. UNEP

manages several environmental rehabilitation programmes, e.g. within REReP and cooperates with other UN organs for their implementation. UNIDO focus on environmental policies and regulations for industry and the private sector.

8.3 The Organisation for Security and Cooperation in Europe (OSCE)

The OSCE is active in the environment area and supports interventions for policy formulation, capacity building, coordination and communication measures, development of legislation related to environmental protection, energy efficiency, sustainable development.

8.4 International Financing Institutions

IFIs are increasingly active in the region, although there are lending restrictions by the IMF that limits the countries' ability to taken on new loans. Loans to public sector investments include infrastructure projects, where the greater part of the lending has been allocated to energy, transport and telecommunications. As a rule, environmental considerations are included in lending criteria, and environment is a prioritised area. Credits for environment are thus in principle available, but still loan-financed environment projects are few, due to lack of clear priorities and lack of bankable projects, institutional difficulties and strained capacity. Where loan agreements have been entered into, implementation is slow due to the creditors' conditions for disbursements.

EBRD as the leading IFI in the region has negotiated loans aimed for environmental improvements in several of the larger cities. The lending portfolio for public sector investments in the region is rapidly increasing and approximating 1 billion euro. The rate of disbursement is however slower than initially estimated. EIB cooperates with EBRD in public sector infrastructure investments in the region.

The World Bank have extended a small number of loans to governments for the purpose of environmental and sanitation improvements in the region, and is also an active with analytical work and advisory services for the environment area. Favourable IDA credits with no interest and long repayment times are available for Albania. Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro can borrow on normal IBRD terms. The World Bank cannot extend loans to Kosovo due to the current status of the UN protectorate.

Kreditanstalt für Wiederaufbau, KfW, finances infrastructure investments and project-related consultancy services to expand the infrastructure and works with loans and grants from donor countries, with Germany as the largest contributor. KfW's project portfolio for environment is mainly funded through grants (e.g. water supply and wastewater disposal and waste management) involves approximately 80 M euro.

8.5 Bilateral donors

In the environment area, Germany along with Austria are the largest bilateral donors mainly through KfW (for investment related activities) and GTZ (for non-investments). USAID also gives substantial support to

the environment mainly through their programmes for municipal development and infrastructure. Also Switzerland focuses on environment and water related projects through KfW and through the Swiss State Secretariat for Economic Affairs, secO. Italy contributes to several REReP projects and may also extend concessionary credits for environmental operations. France use credit instruments (soft loans). Japan Special Fund supports several technical assistance projects related to environment. Norway and the Netherlands give considerable support to REReP projects and through UN organisations and International Management Group (IMG). Finland focuses on support to environmental legislation.

9. Sida: Experiences from the cooperation until now

9.1 Completed and ongoing activities for environmental institution building, environmental rehabilitation projects, and support to environmental civil society

Sida's environmental activities in the region have so far concentrated on Kosovo, Serbia and Albania. These concern clean-up projects in heavily polluted hot-spots (Tailings pond in Gracanica, Kosovo; Industrial complex in Pancevo, Serbia; landfill in Sharra, Albania). In Kosovo, experts have been seconded to the Ministry for Environment and a programme for environmental education and awareness raising. In addition, strategic environmental assessments (SEAs) have been made for all the countries in the region, and within the NGO sector, Sida finance activities for waste recycling in Kosovo and Macedonia. Several of Sida's interventions related to local self-governance and community participation are also focused on environmental issues.

The clean-up projects responded to immediate needs and concerns, and were not designed to include institutional reforms. Implementation has been slower than planned. However, the projects have led to physical improvements and also contributed to raise awareness of the need to address organisational and institutional problems.

The support to government agencies with experts has led to strengthened capacity in the concerned agencies. However, as this support to a large extent depend upon individuals, experience show that the impact can be improved through linking expert support to specific projects and a clear agenda. Sida also has considerable and successful experience from capacity building, policy development and cooperation with environmental authorities in other transition countries, that should be utilised in the cooperation with the Western Balkan region.

The SEAs have provided Sida with overviews of the environmental conditions in the region. They have also been a source of information for national authorities, as they give a comprehensive view of the environmental sector that previously was lacking. They have thus served as input in setting national priorities.

Environmental improvements and environmentally sustainable development are also driving forces behind many of Sida's interventions for local development, decentralisation and local governance. Activities include measures for community participation to provide essential

environmental upgrading and improved infrastructure in municipalities – examples are the initiatives for building local capacity in the Korca region in Albania, and municipal development in Topola, Serbia.

9.2 Related activities with environmental benefits as driving forces

Environmental improvements and environmentally sustainable development are driving forces behind Sida's interventions in several areas. Sida gives extensive support to infrastructure improvements in the energy and transport sectors, to the agricultural and forestry sector, natural resource management and land use, and to private sector development. Environmental aspects of this cooperation are substantial. Results, experiences and relations established in this work have a large potential for development of further activities within the environmental area.

Energy and infrastructure

Projects concerning district heating, electricity transmission and distribution are increasingly focusing on capacity and business development of enterprises. Hardware investments are increasingly financed through loans, where Sida's support has been vital in giving organisations access to external financing. Examples include interventions for organisational and financial management improvements of the Serbian electric power industries and corporate development and project management support to the district heating company in Belgrade.

Sida's involvement in the transport sector has focused on rehabilitation and modernisation of the railway sector in Bosnia and Herzegovina, Kosovo and Serbia. This has involved rehabilitation of existing assets, management support and organisational development. Sida's support has been instrumental in enabling the Serbian railways to secure financing for necessary investments through EIB and EBRD loans.

Sida's early interventions in reconstruction of infrastructure assets have developed into support for institutional reforms and capacity building. The efforts have also enhanced the organisations' performance and enabled access to additional financing on commercial terms through loans. Through this process and long-term commitments, Sida has established firm relations in project partners and with the international community. Sida could therefore have a role to play in developing reform-oriented environmental infrastructure projects.

Natural resource management – Agriculture, forestry, land use and rural development

Sida's agricultural programme is of considerable importance as the agricultural sector is essential for the economy in rural areas. Assistance covers environmentally sustainable agricultural practices and rural development and has also contributed to private sector development with environmental focus. Sida has also supported land survey institutions and is involved in developing ways to improve systems of property registration and security of ownership.

10. Sida's approach to environmental co-operation in the Western Balkan Region

10.1 Mainstreaming environment

Integrating environmental aspects and assessing environmental impacts of all Sida's interventions involve proactive measures to ensure environmental sustainability. Much of the cooperation within the environment area also stems from projects, programmes and experiences in other areas. Of special relevance for projects related to environmental protection and management in the Western Balkan region are Sida's established programmes for energy and transport, agricultural and natural resource management. Good governance, financial and private sector development are also key areas where interventions can be coordinated to underline and increase the impact of activities within the environmental area. Thus, basic principles and assumptions presented in the following are also relevant for interventions where environment is integrated and mainstreamed.

10.2 Social and gender aspects

With respect to environment, vulnerable groups, women and children are in general more susceptible to environmental risks and human health hazards of pollution and a deteriorated physical environment. Addressing the many environmental problems in the region is closely linked with the poverty reduction process. Poverty and income inequalities have increased in the region due to the conflicts and as a consequence of the break-up of the socialist system. Environment and infrastructure services are no longer free of charge, and costs for e.g. water, electricity, decent housing take an increasing share of poor peoples' income, especially in urban areas. Still, functioning infrastructure is a prerequisite for economic growth.

Environmental protection and upgrading measures tend to be high priorities for public spending when decisions are taken by an equal representation of men and women. Equal representation and equal career opportunities should thus be key objectives for developing institutions and organisations in general; and specifically for environment capacity building. In former socialist countries, gender equality was in theory established. In practice, however, inequalities and discrimination towards women were widespread. Sida has arranged special training for Sida staff and individual experts contracted by Sida and working with

environment and energy issues in central and eastern Europe in order to better integrate gender equality issues in project design and implementation.

10.3 Project formulation and development

When engaging in projects, Sida should ensure that ownership, absorption and receiving capacity at project partners is sufficient. Local capacity is often limited and can be a bottleneck for new interventions. However, responsibility for agreements, contracting and implementation should increasingly lie with the involved organisation in the partner country, with appropriate support. This should strengthen ownership and is part of the reform learning and development process. Sida's role as financier should involve dialogue in the establishment of cooperation and project development, monitoring and follow-up. Sida's field officers will play an important role in this, together with external independent experts and supported by Sida's regional environmental coordinator. Resources should be set aside for preparatory measures and support for monitoring and quality assurance. When cooperating with other financiers and implementers, Sida should carefully assess project design with respect to commitment, ownership and participation. Cost-sharing and clear responsibilities by the local partner and additionality by Sida's support can be instrumental for long-term sustainability.

Adequate and transparent processes with participation of key stakeholders are vital when addressing cross-cutting issues, strategies and action plans that involve several sectors of government and public administration (e.g. environment, energy, industry, agriculture, education), the private sector, NGO's and the civil society as a whole. In order to increase awareness and ensure broad participation and transparency, information and communication issues should be integrated in project design.

10.4 Instruments for cooperation

The instruments available for Sida's development cooperation are flexible. Co-funding with other donors is one option along with institutional cooperation between public administration in Sweden and in partner countries, and competitive processes for technical assistance and NGO support.

Sida does not disburse funds directly to the countries, but channel support through international organisations, NGOs and Swedish authorities. Sida also finances contracts entered into between implementing partners (consultants, contractors, private or public organisations) and beneficiary organisations as clients. After client approval, Sida process and pays the invoices.

Available financing instruments include grants, guarantees and credits. Today, the bulk of the support is given as grants. An assessment of financing options for cooperation in the Western Balkans has been initiated in order to evaluate potential for extending credits for infrastructure investments. Environmental investments have a low financial return rate and soft financing (concessionary credits and grants) could therefore be justified.

10.5 Options for implementation

Cooperation with other international actors

Pooling resources and working through other actors such as UN agencies, OSCE, other donors and IFIs is a good option when entering into areas where other actors have established well-functioning programmes and working methods, and Sida can contribute to additionality, through funding and/or involvement. This can give Sida influence over programme formulation and possibility to increase focus on issues that are highly prioritised by Sida, e.g. gender equality, transparency and participation. It will further decrease the demand on Sida's capacity for direct involvement in project development and implementation.

Further, Sida can enter into agreements with international and intra-governmental non-profit organisations for developing and implementing programmes and projects. In the environment area, the Regional Environment Centre (REC) is well established as a service provider. With its operations covering all Central and Eastern Europe REC has a wide network and implementing capacity. They also coordinate and service the REReP mechanism. IMG is another organisation with a proven track record in managing environment and infrastructure programmes for Sida and other donors. These implementers can be appropriate options when the absorption and receiving capacity at beneficiary partners is very low, and for regional activities.

Swedish public authorities

Swedish government agencies as the Swedish Environmental Protection Agency (SEPA) could be instrumental in capacity building of environmental authorities in the partner countries. There are valuable experiences from cooperation with other transition and development countries and twinning with environmental authorities in EU accession countries. Sweden and SEPA have an advanced position in international and European environment policy development. SEPA has also established well-defined and functioning methods involving also other government agencies, universities, county administrations in international environmental cooperation. Sida should liaise with SEPA regarding cooperation with the Western Balkans, scope and extent of such cooperation.

NGOs

Cooperation with NGOs will be important in efforts aiming to strengthen environment capacity and awareness in civil society, and for environmentally sustainable community development. Increasingly, many NGOs in the region are becoming professional market actors and service providers. Consequently, Sida should aim at competitive processes for selecting NGOs as implementing partners. In addition, Sida could consider methods for supporting the development of environmental interest organisations that have potential to develop into independent organisations, financed by membership fees and with a broad outlook on environment issues, nationally and globally.

Private consultancy companies and contractors

Capacity building, institutional and organisational development of public authorities and improvement of environmental services will involve

commercial actors for consultancy assignments and supply of equipment. This should be interesting business opportunities for Swedish companies, with broad resources, expert knowledge and quality products related to environment. Several companies have extensive experience from similar work in Eastern Europe and are likely to be competitive when tendering for contracts in this field. Sida encourages participation by the Swedish business community and increased competition for Sida-funded environment cooperation, through a maintained dialogue and communication with Swedish actors in this field.

Quality and cost-efficiency are guiding principles when selecting implementing actors. As in other areas, corruption is widespread and an existing problem in the environment and infrastructure areas, often related to land use and real estate issues, permitting, construction services. Transparent and competitive methods for selecting suppliers of goods and services are well defined in Sida's procurement guidelines.

10.6 Division of responsibilities within Sida

Sida's Department for Europe, Division for South-East Europe (EUROPE/SEE) has the overall responsibility for the development cooperation with the region, and for the country strategy and policy development processes. Sida's field representatives in Belgrade (including a regional environmental coordinator), Pristina, Sarajevo, Skopje, Tirana and Zagreb maintain dialogue and coordination with local partners and other financiers and monitor projects. Sida's Department for infrastructure and economic cooperation (INEC) is responsible for project and policy development related to interventions in the transport and energy sectors (INEC/INFRA) and related to urban environment (INEC/URBAN). Sida's Department for natural resources and environment (NATUR) develops policy and projects related to forestry, land use, water resource management, biological diversity, agriculture. Sida's Division for International Training Programmes (PEO/ITP) develops and manages a large number of training courses in the field of environment. Through Sida's Department for research and development (SAREC), support is given for building environmental research capacity at the countries' own universities and through Sida's global programmes support is available to a limited extent for countries' involvement in international environmental policy development and networking.

10.7 Risk assessment

Although a new outbreak of widespread violent conflicts in the region seems presently unlikely, there are several political risks involved with the development cooperation and related to uncertain economic future and inequalities in the region, increased unemployment, extensive corruption and stalling of the institutional and economic reforms. And while focusing strongly on economic development, there is a risk that environmental aspects are overlooked. Other external risks for environment cooperation involves the absorption capacity on the recipient side and the ability of various levels and sectors of the governments to work together. Weak ownership and commitment, unclear priorities, lack of coordination between actors, corruption and lack of transparency are risks that need to be addressed for all interventions.

11. Profile of Sida's environmental interventions

11.1 Scope of the environmental portfolio.

Sida's environmental cooperation in South-East Europe aims at poverty reduction, and European integration through the Stabilisation and Association process. Environmental problems in the region are closely linked with the poverty reduction process. The SAp emphasise regional cooperation and includes requirements on environment. Sida's interventions in the Western Balkan region should be pro-poor and help bring about equitable and sustainable development. Environmental aspects of the SAp should also be addressed.

Interventions in the areas of environment should focus on environmental protection and rehabilitation and central institutional issues for environmental management and sustainable development. While Sida should aim at establishing environmental cooperation with all countries in the region (cooperation with Croatia limited to regional/transboundary interventions), the approach and extent need to reflect the disparities; the physical environment and political, economical, demographic aspects. The country strategies provide overall guidance and rationale in this respect. Priority areas for intervention should be coherent with the individual country strategies. Each intervention within the environment area will be assessed by its own merits, and funded through Sida's overall budget allocation for the Western Balkans. Individual projects should be designed in line with Sida's general objectives to increase concentration and focus for the development cooperation, thus increasing impact and administrative efficiency. Disperse and small projects and interventions (<3 MSEK) should be exceptions. The priorities put forward in the following relates to formulation of project and programmes under the management of EUROPE/SEE and INEC/URBAN.

11.2 Linking regional and national environmental reforms to environmental improvements and environmentally sustainable development in local communities

It is important to create conditions for environmentally sustainable development through interventions on a national and regional level, linking to and supporting concrete actions for environmental improvements at the local level. Sida's support should aim at planning and

decision making processes as open and as close as possibly to citizens. Activities on the national level should aim at developing a policy framework and strengthening capacity for sustainable development while local projects should demonstrate ownership and participation as well as decreased environmental hazards. Sida's support on national levels should aim to fill any gaps and need to link to EU interventions and the SAp. Efforts for local environmental improvements should concentrate on regions and municipalities where Sida already is active and can build on established relations and experiences, and on projects that are identified as key national or regional priorities where Sida's support can be instrumental for implementation.

12. Priority areas for cooperation

12.1 Environmental policy development and capacity building

Developing a policy framework and strengthening conditions for environmental protection and sustainable development

Sida should consider multi-sector interventions with the aim of supporting sustainable consumption and production patterns and protection of the environment and the natural resource base. This could include support to development and implementation of national strategies for sustainable development, reforms and improvements concerning property rights, tenure and use of land, increased access to credits for public investments, development of sound pricing strategies for e.g. public services, formulation of cost-effective and consensus-based environmental policies and regulations for industry.

Capacity building of environmental administration and authorities

Sida should aim at environmental interventions and policy measures through the capacity building of environmental authorities in partner countries, in order to develop well functioning environmental administration, assessment, monitoring and reporting structures. This should help the countries to adopt and implement EU legislation and international agreements, and to agree and cooperate within the region on management of transboundary water resources and national reserves. Other interventions should be clearly linked to development of or implementation of national priorities, programmes or projects.

Environmental awareness and development of knowledge

Environmental education at all levels can raise environmental awareness and improve the conditions for sustainability in all sectors of society. Development of higher education capacity at universities in the field of environment is of strategic value. Sida should support the development of a high quality knowledge base related to environment so that universities can provide adequate education and independent analyses, and contribute to debate (e.g. related to environmental economics and environmental law, natural resource management, environmental engineering).

Regional capacity building

Environmental capacity building in form of regional training programmes should be developed. While these should focus on increased knowledge and capacity related to European environmental standards, the training courses also supports regional networking among professionals and could serve as entry points for further cooperation. Participation should be encouraged from national and local authorities as well as from civil society.

Regional efforts could also include complementary assistance to countries which are setting up or renewing joint bodies (e.g. river, lake and sea commissions, border commissions) to comply with regional agreements related to transboundary waters, transboundary air pollution and shared natural reserves.

12.2 Environmental protection – maintenance of ecosystems and their functions

Sida's support should aim at strengthening national and local measures for natural protection and rehabilitation, removal of environmental threats and ecologically sound management of ecosystems. Projects should target maintenance and protection of ecosystems at risk for degradation and critical for conservation of biodiversity. Support could involve capacity building for management and maintenance, assessment and monitoring of sensitive forest, mountain, river, lake and coastal ecosystems.

12.3 Environmental infrastructure and technology

Environmental infrastructure

Projects should aim at reforms of the municipal service sector and to reduced emissions. Sida should targets interventions to places where environmental impacts are validated and where cost-effective investments, affordable for users, are feasible. Projects should be designed to include capacity building and institutional development of the cooperating partners. This includes organisational and economic strengthening of water, energy and waste management companies and setting consumer fees to reflect actual costs for water supply, heating and waste handling, in order to secure that the operations will be sustainable in the long term.

Interventions related to larger investments should be entered into when there are conditions in place for full financing of the proposed project and Sida's funding additional to local contributions and/or external loan financing. Cooperation should be sought with national and international programmes and agencies for infrastructure development. Sida should support utilities to build capacity, reform and develop their organisations into meeting the lenders' criteria, and in designing environmentally sound, financially viable and affordable projects.

Project support could include feasibility studies, business and organisational development, project implementation support, and investments leading to reduced pollution. Interventions concerning waste management should include an assessment, or activities geared at improvements, of human health and social aspects of recycling.

Cleaner production and environmental technology

The purpose and benefits of cleaner production in industry are to gradually replace costly end-of-pipe pollution control solutions with strategies that reduce and avoid pollution and waste throughout the entire production cycle, from efficient use of raw materials, energy and water to the final product. This can give considerably reduced emissions at relatively low costs, while also increasing competitiveness, facilitate market access and strengthen overall economical development. Sida should not work at plant level but target industrial organisations, public institutions and industrial and technology clusters. Support should aim at capacity building for technology assessment, energy efficiency, environmental and industrial policy, data management, health and safety, environmental management systems, and knowledge dissemination.

12.4 Environmental improvements in local communities/municipalities

Community involvement in environmental activities

For development of local projects in smaller communities related to environmental infrastructure improvements, demand-driven approaches should be sought where local communities prioritise, decide and share the costs for infrastructure improvements, and take responsibility for operation and maintenance. Environmental aspects should be thoroughly addressed when supporting efforts for democratic governance and improved municipal administration in financial management and planning. Initiatives for community development with broad participation such as local environmental action plans, awareness raising, community clean-up etc. could also be encouraged. Environmental interventions should ideally be targeted to areas where Sida has established an active presence, reliable implementers and with the initiative and ownership with local partners.

Urban development and physical planning

There is potential for Sida to consider efforts for physical planning and improved access to environmental services in urban areas. Initiatives and activities concerning urban planning, spontaneous/illegal settlements and infrastructure provisions should be assessed and developed. Sida's involvement in this sector should emphasise on the planning process rather than the technical aspects. Prerequisites should be that there are basic legislation in place, local commitment, ownership and political will to work with participatory and transparent planning processes.

12.5 Action plan

A workplan for 2003–2005 includes interventions according with the above guidelines. The workplan is proposed to be a working document with a three-year planning perspective and to be updated annually. An assumption of the implementation of the workplan is that administrative and staff resources are allocated at EUROPE/SEE (including field offices) and INEC, and for external support for project development and formulation.

Appendix 1

– Policy framework

International conventions and commitments

International conventions and commitments that are highly relevant for environmental cooperation in the Western Balkans include:

- Conclusions from the World Summits on Sustainable Development in Rio 1992 and Johannesburg in 2002¹
- The Millennium Development Goals: Adopted in 2001, these goals to reduce poverty include specific objectives to ensure environmental sustainability².
- WTO: The Doha Development Agenda and in particular its trade and environment dimension

Pan-European Environmental cooperation

European cooperation to protect environment and promote sustainable development has expanded following the exposure of environmental challenges and pressures after the collapse of the socialist countries of Central and Eastern Europe, and the opening of opportunities for joint action. The “Environment for Europe” process was established in the early 1990's to set a political framework for tackling environmental problems in the region. The process includes ministerial conferences and has resulted in adoption of legal instruments as the Aarhus Convention on Public Participation³.

At the Johannesburg Summit, European countries (including the Western Balkans) committed themselves to a Plan of Implementation for sustainable development for issues that are particularly relevant to the pan-European region. Targets include:

- Halving by 2015 the proportion of people lacking access to basic sanitation (complementing the Millennium Development Goal on access to clean water);

¹ Agenda 21 for sustainable development, the UN conventions on climate change and on protection of biodiversity from Rio and the Implementation Plan agreed in Johannesburg

² Millennium Development Goal No 7: Ensure environmental sustainability
– Integrate the principles of sustainable development into country policies and programmes by 2005 and reverse the loss of environmental resources by 2015
– Halve the proportion of people without sustainable access to safe drinking water
– Have achieved a significant improvement in the lives of at least 100 million slum-dwellers by 2015

³ Conferences have been held in Dobris Castle (1991), Lucerne (1993), Sofia (1995), Aarhus (1998) and Kiev (2003).

- Minimising the harmful effects on human health and environment from the production and use of chemicals by 2020;
- Implementing national strategies for sustainable development by 2005;
- Reducing significantly the current loss of biodiversity by 2010;
- Urgent action to increase substantially use of renewable energy sources;
- A 10-year framework for programmes on sustainable consumption and production;
- Ratification and entry into force of the Kyoto Protocol at the earliest possible date.

Appendix 2

– Reports on environment produced by Sida – a selection

- Sida’s Policy on Sustainable Development – *January 1996*
- Guidelines for Environmental Impact Assessments in International Development Cooperation – *July 1998 (new Guidelines in March 2003)*
- Sector Programmes – Guidelines for the Dialogue on Strategic Environmental Assessment (SEA) – *May 2002*
- The Country Strategies – Guidelines for Strategic Environmental and Sustainability Analysis – *April 2002*
- Integrated Water Resource Management – Position paper – *1999*
- Sida’s strategy for Water and Sanitation – *2002*
- Indicators for Environmental Monitoring in International Development Cooperation – *June 2002*
- Sida’s Policy for Green Procurement – for cooperating partners – *September 2002*
- Consideration of the Environment Essential for Sustainable Development – *2002*
- The Environment and Poverty – *June 2001*
- Poverty, Environment and the Consultations with the Poor – *October 2000*
- Health and Environment – *Issue Paper Health Division 2001:2*
- Livelihood Conflicts: Linking poverty and environment as causes of conflict – *December 2000*
- Growth and the Environment – *February 2000*
- The Environment and Human Rights – Links and Conflicts – *March 2001*
- Gender and the Environment in Development Cooperation – *April 1997*
- Handbook for Mainstreaming. A Gender Perspective in the Water Resource Management Sector
- Policy for Environmental Education and Education for Sustainability
- Environmental Education Handbook for the Education Sector – *July 1999*
- Policy for Sida’s Assistance to a Sustainable

Energy Sector – *April 1996*

- Trade, Environment and Development Co-operation – *April 1998*
- Can genetically modified crops contribute to alleviating hunger in the world? – *March 2001*
- The Montreal Protocol – Guidelines for the Swedish Bilateral Programme – *May 1997*
- Sida and the Climate Convention – *March 1998, Updated 2003*
- Sida and the Convention on Biological Diversity – *March 1998, Updated April 2000*
- Towards an Ecological Approach to Sanitation – *March 1997*
- Ecological Alternatives in Sanitation – *October 1997*
- Most Worthwhile Use of Water
- Marine Coastal Zone Initiative – *September 1997*

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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