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## POLICY BRIEF

# Building transformative capacities for a climate-friendly economy in communities of rural regions of the Western Balkans and Western Macedonia

Suitable solutions derived from the [GreenRuralDeal](#) Project

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## Executive summary

The GreenRuralDeal project assisted rural municipalities in Greece, Kosovo and Serbia in developing transformative capacities and solutions for a climate-friendly economy. The project also involved the region of Lusatia in Germany as a reference region in addition to these three target municipalities. Though on a very different developmental trajectory compared to the target region, both face similar comparable issues such as population reduction and aging, as well as changes in the political and economic environment that have resulted in a loss of industrial jobs, rising unemployment, and low wages. The project design itself follows a strong implementation-oriented, i.e., transformative, character. Thus, in the course of the project, tools and approaches for practical application were developed from various bottom-up processes in the municipalities and regions with relevant stakeholders in the three target regions of the GreenRuralDeal project. These results and experiences are valuable for comparable municipalities in Southeast Europe.

Consequently, in this Policy Brief we develop and discuss recommendations for other rural regions with comparable contexts and that are going through similar bottom-up processes.

For a climate-friendly and sustainable economy in rural regions that are both **RESILIENT** and **ADAPTABLE**, ecological and social objectives must also be pursued from the earliest stages. This is not a contradiction, but a compelling necessity in order to make structurally weak regions fit for the future and not to leave them behind.



## Introduction & purpose of the project

Building on the knowledge and experience gained in the GreenRuralDeal project, this policy brief aims to provide national, regional and local authorities with policy recommendations, best practices, tools and approaches to manage the transformation to a green economy in rural regions as a central aspect of the sustainable structural change to be achieved at local and regional level. Therefore, this policy brief builds upon outcomes and analysis achieved in the GreenRuralDeal project, implemented jointly by five partner organisations. Its content does not reflect the full positioning or policy recommendation range of the single project partners.

The main [aim of the GreenRuralDeal](#) project was to align structural development and transition policies in the target regions with the Paris Agreement and in the context of the European Green Deal. To do this, the project supported municipalities in three selected rural regions of Greece (Western Macedonia), Kosovo (Kamenica) and Serbia (Priboj) to build up their transformative capacities and develop suitable solutions for a climate-friendly and sustainable economy. In line with the Sustainable Development Goals (SDGs), such a development always addresses social and environmental impacts at the same time, in addition to economic ones.

With this in mind, the project achieved socio-economic impact through the overarching concept of [just transition](#) based on a bottom-up [co-creation process](#). This means that key actors at the municipal, regional and national levels in the target regions were empowered to jointly develop, monitor and implement transformative policies in rural regions that achieve both the economic and the social and environmental impacts intended in terms of Just Transition and SDGs.

["Just Transition" is a political concept for a structural change towards a climate-neutral, social and more inclusive society and economy. The transition process gives equal weight to environmental and social challenges, with a special focus on vulnerable populations. The goal is to achieve climate justice and leave no one behind in the structural change required for this, neither individuals nor states nor future generations."](#)<sup>1</sup>

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<sup>1</sup> Following the description of the Federal Ministry for Economic Cooperation and Development, own translation of the website <https://www.bmz.de/de/service/lexikon#lexikon=125074>



## Key project takeaways

- A **proactive structural change** is aligned with the guidelines of sustainable development; economic, social and ecological challenges must be addressed equally.
- A necessary condition for a **sustainable** structural policy in rural regions is that a structural policy **intervention** must address at least one socio-economic, one socio-ecological and one socio-political target of the Sustainable Development Goals (SDG) each.
- In the spirit of Just Transition, no individuals, institutions or rural regions should be left behind on the path to a climate-friendly economy. Therefore, all **stakeholders** must be **empowered** and involved in the process in a **participatory manner**.
- The strength of a **regional innovation system** depends on both the adaptive and resilient capacity of regions. Both need to be established.
- The **legal basis** for sustainable structural change must be created at the **national level**; this process should be given absolute priority and implemented quickly.
- In the area of financing for a climate-friendly economy in rural regions, the role of government agencies is central. Successful regional projects are characterized by **initial public funding**. Once the projects are established, a combination of public and private sector support is helpful in leading the project to economic sustainability and in a real economic use case.
- GreenRuralDeal measures need to be thought of **across sectors and value chains** for a rural region.
- **Cross-border participatory processes** need to be improved through close cooperation, mutual learning and collaborative projects, including between EU and non-EU regions. **Platforms** for knowledge exchange and joint development of projects, tools and instruments that support sustainable development, especially of rural regions, must therefore be further established and created at the EU level.



## Context of rural regions

Half of Europe is made up of primarily rural areas, which are home to about 20% of the population.<sup>2</sup> With a GDP per capita significantly below the average for Europe, the majority of rural areas are also among the least developed in the EU. Rural areas are also home to vital ecosystem services, natural resources, and biodiversity. They generate food and energy, purify waste, sanitize water, sequester carbon, and offer leisure activities beyond their regional boundaries. In addition to these positive effects, however, these regions also face unique challenges. Extreme weather events are becoming more frequent and intense, endangering their reliance on natural resources (mining, forestry, fisheries, energy and tourism). This vulnerability of rural regions is exacerbated by factors such as population ageing and other demographic trends, lack of economic diversity and weak financial capacity, dependence on external markets, and lack of (digital) infrastructure. Both the need to catch up economically and the pressure to compensate for short-term job losses hamper the use of available resources to promote the regions in the best possible way in terms of sustainability.

In addition to these socioeconomic and infrastructure challenges, there is a parallel and urgent need to replace CO<sub>2</sub> emissions-intensive activities in rural areas with greener alternatives that have a net-zero impact. Rural areas have particularly high per capita greenhouse gas emissions, partly due to the lack of sustainable alternatives for rural businesses (for example, connecting to renewable energy and heat grids) and households (for example, using public transit). Thus, they have a critical role to play in transitioning to a climate-friendly economy and building resilience to climate change.

Rural areas in the Western Balkans and the region of Western Macedonia in Greece are currently undergoing this profound structural change. The transition to a more sustainable energy system and the decarbonization of energy-intensive sectors are set as policy targets for Greece and the Western Balkans by 2028 and 2050, respect

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<sup>2</sup> Rural development [https://ec.europa.eu/regional\\_policy/en/policy/themes/rural-development/](https://ec.europa.eu/regional_policy/en/policy/themes/rural-development/)



tively. Due to their varying degrees of reliance on established sectors, such as dependence in the coal sector, regions' capacity to cope with the challenges of structural change are very different and highly complex due to the paradigm shift in relation to sustainability. This is even more profound in rural regions which have already addressed structural change and now, in parallel, which have to confront climate change, succeed in a sustainable energy and industry transition and also limit the effects of demographic decline. Rural policy actors therefore need to be proactive in pursuing new development opportunities, while at the same time triggering the implementation of sustainable structural change. These approaches are still not sufficiently reflected in rural development policy. This is understandable, given the high complexity and time pressure of this task that the regions have to solve and for which they will need support from a governance higher level, despite all their motivation! In recent years, the European Commission (EC) has increased its interest in the challenges facing Europe's carbon-intensive rural regions. The signals sent by the EC also make it clear that this significant structural change must be built simultaneously on the pillars of sustainable development. Instruments such as the EU Just Transition Mechanism aim to support long-term structural changes in EU member states. Yet, no fund has yet been established to help the Western Balkan (WB6) regions mitigate the impact on the labor force and contribute to both economic diversification in the most affected regions and regional cooperation. This is not conducive, considering that the majority of WB6<sup>3</sup> countries are highly dependent on fossil fuels. In this context, the trade-off between economic diversification, reducing unemployment, and saving the environment seems all too real.

A change, however, requires confronting current social, environmental, and economic factors. Therefore, the fundamental tenet of a structural change to a decarbonized economy is just transition<sup>4</sup>, while utilizing the challenges to be opportunities and set in motion a positive dynamic in these territories, and leaving no one behind.

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<sup>3</sup> The Western Balkan 6 Initiative (also known as the Berlin Process) aims to support the six contracting parties of the Energy Community in Southeast Europe: Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia. Source: <https://www.energy-community.org/regionalinitiatives/energy/WB6.html>

<sup>4</sup> Just Transition: A Report for the OECD (2017), <https://www.oecd.org/env/cc/g20-climate/col-lapsecontents/Just-Transition-Centre-report-just-transition.pdf>



## Target regions of the GreenRuralDeal project



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### [Western Macedonia in Greece](#)

The region of Western Macedonia Region is located in the north-western part of Greece. The region faces the challenges of a shrinking and aging population and is expected to experience significant economic decline due to the lignite phase out planned for 2028. The region's unemployment rate is at 26% (2019) and higher than the national average (17%). Amongst all European regions, Western Macedonia ranked 9th in unemployment. On the one hand, the coal-structural challenges brought by coal-phase out between 2001-19 resulted among others in an 11% decrease in population size over the last decade. On the other hand, as part of the National Just Transition Plan, there is a transition process initialized in Western Macedonia, where the region and the municipalities have been increasingly responsible for key policy areas resulting from the transfer of competencies started in 2011. At the regional level, the regional authority is mainly responsible for regional planning and development, including the management of EU operational programs.



### Kamenica in Kosovo

The municipality of Kamenica is located in the eastern part of Kosovo, it had 27,823 inhabitants in 2019. The economy of Kamenica is mainly based on bricks and beverages (alcoholic and non-alcoholic) production and small trade businesses. Despite the education and administration sector, which is considered to be over-employed, the job market is small, the unemployment rate is high (35%), and many residents are in need of social care. As a result, many people leave the region and country in search of better opportunities, especially the young generation. Besides, the new Governmental Plan of Kosovo for 2021-2025 regarding provisions on environmental protection states that the vision is planning quality investments in view of sustainable development and integrated infrastructure that are in line with a clean environment, well-being and mobility. Additionally, initiatives are being undertaken at the municipal level as well, to increase the level of awareness and also investments aimed towards a green transition.

### Priboj in Serbia

Priboj is a town and municipality located in the remote mountainous Zlatibor District of southwestern Serbia and borders Bosnia and Herzegovina and Montenegro. In the vicinity of Priboj there are many protected areas and places of a high tourist value. The number of inhabitants in the Municipality of Priboj has heavily dropped within the last 30 years from 35,756 in 1991 to 23,874 in 2019. Due to migration and low fertility rate, this trend is likely to continue. As a result, the municipality is severely impacted by an ageing population and brain drain. The manufacturing industry continues to be the largest employer in the region. The Free Zone established in 2015 has been very successful in attracting new investments in the region. Despite this, Priboj remains one of the regions with highest unemployment rates, far lower than the national level and even Zlatibor district level. By joining the Covenant of Mayors, Priboj has pledged to support the EU in its efforts to reduce greenhouse emissions by 40% until 2030.



## Policy recommendations

**The role of multi-stakeholder and Cross-Border Cooperation:** Climate change and environmental vulnerabilities stretch far beyond a country's borders. Therefore, cross-border cooperation is essential for tackling these issues and developing comprehensive and all-encompassing policies and projects, which already take place within the EU. Although there are currently cooperative platforms in the EU and the Western Balkans<sup>5</sup> that connect policy makers, still they do not fully offer useful insights on information sharing-particularly at the municipal and regional level. Cross-border participatory processes could be improved by close collaboration, mutual learning, and cooperative projects. GreenRuralDeal, as a cross-border project between EU and non-EU regions, has served as a platform of knowledge-sharing and co-creating of projects, tools, and instruments that support the sustainable development of these regions.

### **Task at the EU level**

- There is a need to develop and establish a permanent and low-threshold information, exchange and cooperation instruments tailored to the specific needs of actors in rural regions. Additionally, a fund should be established to build up personal capacities for a multi-stakeholder process and cross-border cooperation in mostly structurally weak regions.

### **Task at the national level**

- To ensure that the funds are fully allocated and utilized, the national level should promote (already existing) EU instruments and management of the fund for a multi-stakeholder process and cross-border cooperation. National level should also act as a "service provider" for regions and municipalities, helping them to build competencies and empowerment for this transformation task towards a climate-friendly and sustainable economy. Intermediary institutions, like Balkan Green Foundation (BGF) or like RES Foundation (RES) are familiar with EU instruments and can empower interested municipalities and regions to

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<sup>5</sup> Initiative for coal regions in transition in the Western Balkans and Ukraine, [https://energy.ec.europa.eu/topics/oil-gas-and-coal/coal-regions-western-balkans-and-ukraine\\_en](https://energy.ec.europa.eu/topics/oil-gas-and-coal/coal-regions-western-balkans-and-ukraine_en)



use them. Such intermediaries should therefore be addressed more by national bodies for a successful practical implementation of EU instruments on the ground.

### **Task at regional and municipal level**

- To achieve sustainable and productive structural change, policymakers at all levels in regions and municipalities should recognize the need for a multi-stakeholder process and be willing to empower themselves for sustainable and productive structural change, so that all potential possible scope of action can be exhausted and extended. Courageous and innovative drivers are needed to push for progress.
- When developing sustainable measures at the municipal level, it is essential to obtain external perception from all involved/affected persons from the very beginning. This is particularly important if external partners, such as large companies, or exclusively municipal partners are involved in developing and implementing measures/activities. The suggestions and criticism obtained from all stakeholders can have a significant impact on how the policies are developed moving forward.

**Building and connecting to necessary infrastructures:** In the target regions of the GreenRuralDeal project and in most rural areas in the Western Balkans, there is a significant need for improvement in building necessary infrastructures for a climate-friendly economy and also way of life, for example, renewable energy production, and especially decarbonization of the heating system. Decarbonization projects for district heating and cooling as well as energy efficiency improvements in Priboj and Serbia overall show that if there is a platform for support, then citizens can benefit from better quality heating and healthier environment.<sup>6</sup> Coordination of rural development initiatives that contribute to sustainable livelihoods at the local levels is therefore critical and there is much to be gained. On the one hand, rural development strategies from the local as well as national level should take

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<sup>6</sup> Cleaner district heating for 11 cities, municipalities in Serbia <https://balkangreenenergynews.com/cleaner-district-heating-for-11-cities-municipalities-in-serbia/>



into account the potential to reduce air polluting substances and overall greenhouse gas (GHG) emissions. On the other hand, more rural areas in the Western Balkans should be supported to build sustainable infrastructure, improve environmental protection and increase the use of renewable energy sources, retrofitting of private and public buildings and a wider consumption of renewable energy in them.

### **Task at the EU level**

- Systematic recording of infrastructural needs for rural regions in Europe and support for the concrete development of necessary infrastructures for a climate-friendly economy, for example, through the expansion of the Just Transition Mechanism (this also applies to human resources, for example, when it comes to training and employment needs).

### **Task at the national level**

- Creation of a legal basis for the development of new and innovative climate protection technologies as well as the associated reduction of bureaucratic hurdles and support in applying for EU funds for regions and especially municipalities.

### **Task at regional and municipal level**

- In the area of funding, the role of government agencies is important because successful projects in rural areas often had initial government funding, or regional and local. Until the (infrastructural) project hits the ground running, it benefits from public funding, and further forward, a combination of public and private sectors is quite conducive until the business model is fully established.
- In addition to a general plan towards a climate-neutral economy, municipalities also need a municipal management model to initiate systemic (infrastructural) projects.
- Infrastructural measures for building a carbon-neutral economy in rural regions must be thought across sectors and value chains. The implementation of purely singular measures for one sector (e.g., decarbonization of energy production) has run its course and is not effective due to time pressure. This means that the complexity of energy and industry transformation is enormous and must



be addressed at all levels of action, especially when it comes to building and restructuring infrastructures, which usually entail long path dependencies.

**On Innovation Districts in Coal Regions:** All target regions in the project have significant natural resources that could support a sustainable transition locally, investing in technologies for sustainably utilizing resources. In Western Macedonia, for example, the concept of an Innovation District serves as a magnet for large and small enterprises, for research and development, and for skilled workers, who were once attracted to the region due to the coal industry, are now seeking opportunities especially in the Industry 4.0. Introducing the concept of an Innovation District in regions hit by the coal phase-out or other structural change challenges could reshape and regenerate the local economy. Such an initiative could help creating the foundation for a local green economy and for attracting new high-quality jobs in the region, limiting the brain drain. Moreover, it could spur the creation of new products, processes, technologies, and high-growth firms that will drive productivity growth.

#### **Task at the EU level**

- Considerable financial resources are needed from the EU level to fund such initiatives, which transform the regional economy into a more sustainable and technologically advanced path.

#### **Task at the national level**

- A broad culture of innovation at the national level is an enabling condition. It is insufficient to just rely on corporate culture to create long-lasting institutions that support climate-friendly economic practices in rural Europe. Long-term success requires putting social equality and the state's role first while juggling commercial interests with the welfare of the community.
- The national legal investment framework must be designed in a way to facilitate and promote sustainable investments in particular (according to defined and verifiable criteria). A successful transformation requires a flexible, less bureaucratic framework.



### Task at regional and municipal level

- Support for the "artificial intelligence" economic sector can under conditions be part of a growth opportunity, inter alia to attract sustainable investments in rural regions and municipalities.
- In the case of innovative developments, attention must always be paid to how neighboring municipalities and regions develop and what competition, but especially what opportunities, arise from this.



## Good practices from target regions

### Decarbonization projects in Priboj

The largest decarbonization projects in Priboj are currently implemented in the heating sector. In 2019, Priboj began with the construction of a new 8 MW district heating power plant on biomass financed by the German KfW bank and implemented in partnership with the Serbian Ministry of Mining and Energy and Ministry of Finance.<sup>7</sup> The construction of new plants is followed by rehabilitation of the district heating system. Since 2016, Priboj has also been discontinuing boilers in public buildings which used fuel oil, substituting them as well with biomass. Private households are also expected to benefit from a replacement scheme of obsolete devices against residential heating on biomass.

In addition to this, Priboj is one of only a handful of municipalities in Serbia to subsidise retrofit of private buildings and improvements in energy efficiency aimed at increasing energy savings. There is significant space for improvement in this regard, as well as interest of local residents in participating. The measure has been so far financed by the local government, but the sources were very limited. In April 2021, Serbian Ministry of Mining and Energy has published its first call to subsidise similar projects.

### Kitka Windpark in Kamenica

The Municipality of Kamenica used its favourable potential to attract the construction of Kosovo's first Wind Energy Park with a capacity of 32,4 MW. The Wind Park contributes to climate mitigation by increasing the share of renewable energy generation in Kosovo- which is otherwise largely reliant on coal-fired power generation.<sup>8</sup> The capacity is likely to increase in the near future, as the Municipality aims to produce ten times more renewable energy than it consumes in the next ten years. Kosovan grid operator (KOSTT) has signed connection agreements for two wind farms and a solar plant in the Kamenica municipality with a combined capacity of 99.6MW, which are

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<sup>7</sup> Municipality of Priboj: Pioneer in introducing local, ecological and renewable fuel – wood biomass(2021), <https://www.resfoundation.org/municipality-of-priboj-pioneer-in-introducing-local-ecological-and-renewable-fuel-wood-biomass/>

<sup>8</sup> KITKA Wind Park <https://www.ebrd.com/work-with-us/projects/psd/kitka-wind.html>



expected to come on line in 2024. Still, the municipality of Kamenica as well as other municipalities, regardless that they seek to utilize their potential for decarbonization projects, are faced with inadequate financial resources and human capacities to implement them.

### Green Hydrogen in Lusatia

In the past, East Germany received 90% of its electricity from Lusatia, which encompasses parts of the eastern states of Saxony and Brandenburg. One of Europe's largest lake districts has been created by filling in many of the open-pit holes left behind by brown coal (lignite) mining. A reorientation is required among coal structural change challenges such as risks of going out of business, jobs lost, brain drain, to mention a few. Having to remake themselves is a common outlook that many places go through when a major sector fails. Hydrogen is a crucial component of Lusatia's future.<sup>9</sup>

As a result, the town of Görlitz announced the opening of an "Innovation Campus" in 2019, along with the State of Saxony, the Technical University of Dresden, Siemens Energy, and the Fraunhofer Society. Its main objective is to provide technologies for the switch from fossil fuels to Renewable Energy Sources (RES). With hydrogen as the primary focus, this will encompass various decarbonization and industrial technologies, even a lab for start-ups to investigate potential concepts. Electrolysers in a hydrogen test facility will allow for the production of hydrogen from water while also capturing extra wind and sun energy. Then, this chemical energy storage device can be used as fuel or turned back into electricity if the sun or wind do not generate enough energy.

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<sup>9</sup> Hydrogen drives structural change (2020) <https://www.siemens-energy.com/global/en/news/magazine/2020/structural-change-thanks-to-hydrogen.html>



## Project data sheet and authors

The policy brief was written by: Milot Morina (Germanwatch), Pranvera Selimi and Katja Witte (Wuppertal Institute)

We are also grateful to Rinora Gojani (Balkan Green Foundation), Verena Allert (Germanwatch), Aleksandar Marcura (RES Foundation) and Lefteris Topaloglou and Yianis Bakouros (Local Government Association of Western Macedonia) for providing valuable inputs.

### Project identity

Project Name	GreenRuralDeal-Sustainable & Smart Transition Strategies for Rural Municipalities
Coordinator	<a href="#">Wuppertal Institute</a> for Climate, Environment and Energy Contact person: Katja Witte - <a href="mailto:katja.witte@wupperinst.org">katja.witte@wupperinst.org</a> Doeppersberg 19 42103 Wuppertal Germany
Consortium	<a href="#">Balkan Green Foundation</a> Contact person: Rinora Gojani <a href="mailto:rinora.gojani@balkangreenfoundation.org">rinora.gojani@balkangreenfoundation.org</a> Str. Universiteti 36/2 Prishtina 10000, Kosovo  <a href="#">Germanwatch e.V.</a> Contact person: Milot Morina <a href="mailto:morina@germanwatch.org">morina@germanwatch.org</a> Stresemannstraße 72, 10963 Berlin Germany  <a href="#">RES Foundation</a> Contact person: Aleksandar Macura - <a href="mailto:macura@resfoundation.org">macura@resfoundation.org</a> Zmaja od Nocaja 3A 11000 Belgrade, Serbia



Wuppertal Institut

	Regional Association of Local Government of Western Macedonia Contact person: Dimitris Theodoridis - dtheodoridis@peddm.gov.gr N. Tsontza 3 501 31 Kozani, Greece
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Further Reading	<a href="https://www.germanwatch.org/en/20187">https://www.germanwatch.org/en/20187</a>

## Links to the tools and reports produced in the GreenRuralDeal project

- Guide for creating and conducting transformative public policies at the local level <https://www.resfoundation.org/guide-for-creating-and-conducting-transformative-public-policies-at-the-local-level/>
- Tool 1: Assessment of Transformative Projects <https://tool1.online/>
- Tool 2: Assessment of Transformative Policies <https://tool2.balkangreenfoundation.org/>