Green Finance for Sustainable Development in the Western Balkans

Reis Mulita

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Abstract: This paper explores the concept of sustainable development and green finance, their importance, and how they are related with a focus on Western Balkans perspectives.

The main hypothesis presented is that green finance has the potential to be a key factor in encouraging sustainable development in the Western Balkans because it can contribute to the development of a more resilient and sustainable future for all countries in the region, regardless of their borders or differences in culture or identity.

The author uses a qualitative and quality research approach, using a combination of literature review and empirical data to explore the relationship between sustainable development and green finance. The literature review will involve a comprehensive literature analysis on sustainable development and green finance, including academic sources, institutional reports, case studies, etc. In conclusion, the paper finds that sustainable finance is progressively gaining prominence in Western Balkan countries, aligning with European and global trends.

1. PRESENTATION OF THE SITUATION

Sustainable development is considered the needed model to tackle the societal challenges of the 21st century. Contemporary society faces important challenges, among which the confrontation with global warming, climate change, and its consequences for society and nature itself. Also, the challenge of society to reduce inequality in the possession of resources and income, the distribution and redistribution of resources and income, as well as numerous phenomena that have followed the model of social development concerning resources and income in society, such as poverty reduction, equal opportunities, social justice, exclusion and social inclusion, gender issues, etc. We face the challenges in question at the local, national, regional, and global levels. As we discuss the above challenges, we bring to attention the mobilization of society and its actors to build and apply a development model that also offers solutions in relation to the challenges and consequences of the existing development model. This model is articulated as a model of sustainable development (UN, 1992).

Sustainable Development is defined as a model of development, through which contemporary society faces current and future challenges in its interaction with nature such as global warming, climate change, and its consequences. The first argument through which a sustainable model of development tackles these changes is the global warming phenomenon.

The term “global warming” describes the gradual rise in Earth’s average temperature brought on by human activities like burning fossil fuels and deforestation, which cause greenhouse gases to be released into the atmosphere. The climate system is changing significantly as a result of...
this temperature rise, including changes to precipitation patterns, a rise in sea level, and more frequent and intense heatwaves, droughts, and extreme weather events (NASA, 2021). The direct result of global warming that society must address is climate change. The phrase “climate change” is an all-encompassing phrase that describes many modifications that the Earth’s climate system is undergoing, such as variations in temperature, precipitation, sea level, ocean acidity, and the frequency and intensity of extreme weather events (IPCC, 2021).

The increase in global temperatures is causing more frequent and intense heatwaves, droughts, wildfires, and hurricanes as a result of climate change and global warming. The social and economic consequences of climate change are already causing the most vulnerable populations significant suffering (NASA, 2021). Food and water shortages, forced relocation due to climate change and extreme weather, an increased risk of disease outbreaks, and detrimental effects on mental health and well-being are just a few of these consequences (IPCC, 2021). Low-lying and coastal regions, arid and semi-arid regions, and areas with high temperatures and humidity are particularly vulnerable to the effects of climate change, which are not evenly distributed throughout the world (IPCC, 2021). The global community has set a goal of keeping the Earth’s temperature increase to 1.5°C above pre-industrial levels to afford the effects of global warming. It will be necessary to drastically reduce greenhouse gas emissions and move quickly toward a low-carbon economy to meet this objective (UNFCCC, 2015). Ecosystems are being severely disrupted by rising temperatures and shifting weather patterns, and many species are finding it difficult to adapt.

This increase in temperature due to human activity is causing a range of climate changes and social consequences worldwide, such as the temperature rise, as the global temperature has increased by 1.1°C since the pre-industrial era and is projected to rise by 1.5°C above pre-industrial levels by 2040-2050 without drastic action (IPCC, 2021). Climate change is causing also extreme weather events with more frequent and severe heatwaves, droughts, floods, hurricanes, and wildfires. For example, the 2021 Texas winter storm resulted in over 4 million power outages and at least 210 deaths (NOAA, 2021). Another significant effect is the rise of the sea level, where the sea level has risen by 20cm since the pre-industrial era and is projected to rise by 30-110cm by 2100. This will cause more frequent and severe coastal flooding and erosion (IPCC, 2021). Ecosystem impacts are also very evident as a result of the climate since the change of weather is causing habitat loss, biodiversity decline, and ecosystem disruptions. For example, coral reefs are under threat due to ocean warming and acidification (IPCC, 2021). The health effects of climate change are visible, including worsening air pollution, waterborne illnesses, food insecurity, and mental health problems. According to data from the World Health Organization, air pollution, for instance, contributed to 7 million premature deaths globally in 2019 (WHO, 2021). In addition, infrastructure, agriculture, and tourism losses brought on by climate change are having a significant negative economic impact. For instance, Hurricane Katrina in 2005 resulted in $161 billion in damages (NOAA, 2021).

Facing society with the above-mentioned challenges of the century on global warming and the reduction of social inequalities, as well as the application of the model of sustainable development, requires financial resources, beyond policies, strategies, and programs of development projects and the application of the model in question. Green Finance is considered an instrument and tool to support and apply the model in question, and the objectives articulated in global summits, among which the UN Summit for SD Goal 2030, has been achieved. In these challenges, the Western Balkans was undoubtedly included as a region (UN, 2015), with an eye toward the EU standard, considered vulnerable due to the composition of the political and social map dictated by its turbulent and troubled historical past.
2. LITERATURE REVIEW ON SUSTAINABLE DEVELOPMENT AND GREEN FINANCE

Scientific literature suggests that sustainable development and green finance are two interconnected concepts that are becoming increasingly important in the world of finance and business. The mobilization of financial resources to support sustainable economic growth, lower carbon emissions, and safeguard the environment is known as “green finance.” Green finance, according to the United Nations Environment Program (UNEP), is the practice of allocating money to environmentally responsible projects.

The financial flows that support sustainable economic growth while lowering greenhouse gas emissions and minimizing environmental degradation are referred to as **“green finance”** (UNEP, 2021a). As a crucial tool for advancing sustainable development today, green finance has emerged (Smith, 2020). Meanwhile, businesses and investors alike are realizing the value of adopting sustainable finance principles (UNEP, 2021b). To achieve the Sustainable Development Goals, sustainable finance involves incorporating environmental, social, and governance considerations into financial decision-making (UNEP, 2021b). Through the integration of environmental, social, and governance (ESG) factors, sustainable finance can help to promote long-term value creation and contribute to the achievement of the Sustainable Development Goals (SDGs) (UNEP, 2018a). The integration of environmental, social, and governance (ESG) factors in investment decision-making is essential for achieving sustainable development” (Aldowaish et al., 2022).

According to the literature, sustainable development principles can be attained by incorporating ESG factors into investment decision-making, which is another way to achieve sustainable development goals (UNEP, 2018b). United Nations Framework Convention on Climate Change (UNFCCC, 2015) states that the Paris Agreement, which was signed in 2015 by 195 nations, aims to keep global warming to well below 2 degrees Celsius above pre-industrial levels and work toward 1.5 degrees Celsius (PV). Significant investments in green finance and sustainable development programs will be required to meet this objective. According to Jones and Lee (2019), practical evidence suggests that spending on renewable energy has the potential to make a significant contribution to the goals of sustainable development. According to the sources mentioned above, the topics of green finance and sustainable development are crucial to the study of economics and finance. By providing funding for environmentally friendly projects, as Berg et al. (2019) demonstrate, green finance can be a critical component of supporting sustainable development. UNEP emphasized this point as well, citing how important sustainable development is to the long-term health of the planet and how green finance can help to ensure that it is accomplished (UNEP, 2018c). Beyond the other arguments, the development of green finance has the potential to drive the transition to a low-carbon economy, which is critical for mitigating climate change” (Baker et al., 2018) since applying principles of sustainable finance can help to guide investors towards investments that are environmentally and socially responsible (OECD, 2020). Considering the cited references, it can be argued that green finance has become an important tool for promoting sustainable development. Research has shown that investing in green infrastructure can lead to significant economic benefits, including job creation and increased productivity (World Bank, 2019). This demonstrates that green finance is not only beneficial for the environment but also for the economy and society as a whole. Also, for other authors green finance is a critical tool for supporting sustainable development (Gao et al., 2021). Green finance can lessen the effects of climate change by making investments in projects that promote environmental protection. Governments and corporate actors still need to finance the green economy. Given the previously mentioned justifications, allocating investments to green finance for sustainable development requires the
establishment of efficient institutionalized legislative and administrative frameworks. The issuance of green bonds has reached record levels in recent years, making them a popular instrument in the green finance market (Climate Bonds Initiative, 2021). These bonds are used to finance environmentally friendly projects such as renewable energy and energy efficiency initiatives (Zhang et al., 2020). It’s evident also that sustainable finance initiatives such as green bonds and social impact bonds are gaining traction in the global financial market (UNEP, 2018c). There are many cases where the green bond market has grown significantly in recent years as a means of financing environmentally sustainable projects.

3. DISCUSSIONS AND FINDINGS

The first question addressed consists in the following argument: How can green finance contribute to regional Sustainable Development? The UN Sustainable Development Goal (SDG) 2030 Goal 9.1 calls on governments and society to: promote economic growth and human well-being, and develop high-quality, dependable, sustainable, and resilient infrastructure, including regional and cross-border infrastructure, with a focus on ensuring equitable and affordable access for all (SDG Goal 9.1). Particularly in the most vulnerable and impoverished nations, where domestic resources are scarce, international public finance plays a crucial role in completing national efforts to mobilize public resources. The Sustainable Development Goals (SDGs) by the UN (2015) set forth demand: Ensure that everyone has access to affordable, reliable, environmentally friendly, and modern energy by strengthening the implementation and revitalization of the Global Partnership for Sustainable Development (UNSD Goal 17). (UNSD Goal 7) Encourage Sustainable and Inclusive Economic Growth, full and profitable employment and decent work for all (UNSD Goal 8) build reliable Infrastructure, promote inclusive and Sustainable industrialization, and foster Innovation (UNSD Goal 9). Taking into consideration all the above mention we can conclude that driving the Western Balkans development model towards a sustainable model with green and Sustainable Financing generates benefits to the society and nature, to the present and the future of society.

Another topic for our discussion is based on the argument: How can green finance support a Sustainable EU perspective for the Western Balkan countries? Green investments, according to the European Commission (2018), “reduce carbon emissions and pollution, improve energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.” Several financial instruments, such as green bonds, green loans, and sustainable investment funds for the Western Balkans, can be used to implement green finance (Bocken et al., 2021). With the adoption of the Sustainable Finance Action Plan in 2018, the EU significantly increased its efforts to promote sustainable finance to achieve a sustainable future (European Commission, 2018). New financial instruments, like green bonds and sustainability-linked loans, that are intended to encourage investment in sustainable projects are being developed as a result of the EU’s sustainable finance agenda (EIB, 2021). The EU Taxonomy Regulation, which establishes a framework for determining whether an economic activity is environmentally sustainable and seeks to direct investments towards sustainable projects, was adopted by the EU to promote the achievement of the SD goals (European Parliament, 2020). The sustainable finance taxonomy that the EU has established aims to create a common language for investors to identify environmentally sustainable economic activities, as stated in the EU Parliament’s declaration (European Parliament, 2021). The European Green Deal is a roadmap for achieving this goal through a variety of strategies to help the EU become a global leader in its commitment to becoming climate-neutral by 2050. Moreover, the European Green Deal serves as a guide to achieving this
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objective through a variety of policy measures, such as sustainable finance (European Commission, 2018). According to EIB, the EU’s Green Deal is a comprehensive strategy with a strong emphasis on sustainable finance to transform the EU into a climate-neutral economy by 2050 (European Investment Bank, 2021). The EU has been at the forefront of efforts to promote green finance and sustainable development by taking these actions (European Commission, 2021). According to a report by the European Bank for Reconstruction and Development (EBRD), green finance is becoming increasingly important in the Western Balkans (EBRD, 2021). EU is at the forefront of the Western Balkans toward a sustainable future. A concrete action is the Green Agenda for the Western Balkans, a joint initiative between the EU and the Western Balkan countries (EBRD, 2020). It aims to support the transition to a low-carbon economy in the region, for green investments in the Western Balkans, as well as policy reforms to promote sustainable growth (COM, 2020). In recent years, financial institutions have been actively promoting green finance in the Western Balkans, according to official data and sources. This activity is intended to support the region’s transition to a low-carbon, climate-resilient economy and to help the EU meet its target of reducing greenhouse gas emissions by 55% by 2030. For instance, the EIB started the Green Finance Initiative (GFI) to encourage sustainable development in the Western Balkans (EIB, 2020). The initiative includes a range of activities, such as promoting energy efficiency and renewable energy, improving water and waste management, supporting sustainable transport and urban development, and increasing access to green finance for businesses and households in the Western Balkans. EIB also is working with local banks and financial institutions to develop green finance products that can support sustainable investments such as providing credit lines, guarantees, and other financial instruments to encourage investment in renewable energy, energy efficiency, and sustainable transport. It is evident also that there are present joint initiatives among financial stakeholders aiming to invest in sustainable and green finance in the Western Balkans. As an example, we can bring to attention the Western Balkans Sustainable Energy Direct Financing Facility, a joint initiative between the EIB and the European Bank for Reconstruction and Development (EBRD). This program aims to offer households and businesses in the Western Balkans direct financing for renewable energy investments. The creation of a classification system, green bond standards, and guidelines for incorporating environmental, social, and governance considerations into investment decision-making are all part of the EU’s sustainable finance agenda (European Central Bank, 2021). Kovacevic and Radovic-Markovic (2021) assert that the Western Balkans have difficulty obtaining green financing due to its scarcity and high cost. Through the financing of renewable energy, green finance helps to advance sustainable development. Solar, wind, and other renewable energy sources are essential for lowering carbon emissions and addressing climate change. By providing financial support for renewable energy projects, green finance can help to accelerate the transition to a low-carbon economy.

Another way that green finance promotes sustainable development is through the financing of sustainable infrastructure. Infrastructure projects such as public transportation systems, green buildings, and sustainable water and waste management systems are essential for promoting sustainable development. By providing financial support for sustainable infrastructure projects, green finance can help to promote economic growth, reduce carbon emissions, and protect the environment. Through the funding of environmentally friendly forestry and agriculture, green finance can further the cause of sustainable development. Sustainable farming and forestry methods can improve soil health, encourage biodiversity, and lower carbon emissions. By providing financial support for sustainable agriculture and forestry projects, green finance can help to promote sustainable land use and protect the environment.
Regional Cooperation Council (RCC) has been very active in contributing to EU SD initiatives. By endorsing the Green Agenda for the Western Balkans (GAWB) at the Summit in Sofia in 2020 and the GAWB Action Plan at the Brdo Summit in October 2021, the region has also committed to achieving carbon neutrality by 2050 and aligning with the key components of the European Green Deal, in line with the EU’s ambition to become climate-neutral by 2050 (RCC, 2021). World Bank also considers that the adoption of sustainable practices in the region has been hindered by a lack of awareness and education (World Bank, 2019). Intersectional analysis by the World Resource Institute (WRI, 2021) examines the role of climate finance in addressing gender inequalities, particularly in developing countries. These considerations are very important for Western Balkans taking an intersectional approach to climate finance, which considers how gender intersects with other forms of inequality, such as race, class, and geography. The authors of these reports argue that addressing gender inequalities is essential to ensure the effectiveness and sustainability of climate finance interventions. EU aims to create a healthy and well-being society, data coming from the European Environmental Agency shows significant side effects coming from the poisons of PM2.5 in Western Balkan countries (EEA, 2020).

The World Bank also has said that green infrastructure supports the creation of new jobs, drives economic growth, and delivers benefits to society (World Bank, 2020). A model of Sustainable development and green finance will benefit the Western Balkans. It is optimistic to see that international financial institutions are driving the process of sustainable development through green finance in Balkan countries. For instance, the EBRD is thinking about funding the Western Balkans Sustainable Energy Direct Financing Facility (“We BSEDFF” or the “Facility”) with an additional EUR 50 million, bringing the total commitment to EUR 100 million. The We BSEDFF was initially approved on November 11, 2008, and is now being replenished. The facility will keep giving local businesses in Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, and Serbia debt financing for renewable energy and energy efficiency. Individual loans made through the Facility will continue to range in size from 1 million to 6 million euros (EBRD, 2021). The EU bank, European Investment Bank provides EUR 120 million for renewable energy projects in the Western Balkans, according to the Balkan Green Energy News (2021). It also includes information on the specific projects that will receive funding, which include solar, wind, and hydropower projects. Digitizing society and economy contribute to a sustainable future of the Western Balkans. In order to advance their regional engagement in the digital space, the European Union and its Member States have established the Digital for Development (D4D) Hub for the EU Neighboring Countries, which was announced at the Western Balkans Digital Summit (2023). A case study of the Women Entrepreneurs Finance Initiative (We-Fi) by the IFC in 2021 examines the role of green finance in empowering women entrepreneurs in developing countries. Green finance can promote inclusiveness by providing financing for sustainable projects that benefit local communities. For example, green finance can be used to fund renewable energy projects that provide access to electricity in rural areas. This can help to reduce poverty and improve the standard of living in these communities. Green finance can also be used to fund sustainable agriculture projects that benefit small-scale farmers. By providing financing for these projects, green finance can promote economic growth and reduce inequality. Among the other international prestigious institutions, the RCC (2021), has demonstrated very significant work and contribution to the Western Balkan country’s developments based on the sustainable model of development, green economy and finance, recycling economy, etc. Official study and research as a reference in support of discussions regarding the SD and green finance realities and perspectives in the Western Balkans are presented. 370 (three hundred and seventy) people were questioned on different issues that influence the presence and perspectives of green finance and sustainability across six countries of the Western
Balkan area (RCC, 2022). In regards to the question linked to green finance and incentives, the dominant answer supports the argument on the Fiscal incentives for a green economy that are argued as the first condition, followed by Improving legislation regulating the green economy and environmental standards, then education and awareness-raising programs to motivate sustainable consumption, green public procurements, etc.

4. CONCLUSION

This paper finds that sustainable finance is becoming increasingly mainstream in Western Balkan countries embracing the European and global trends. There are growing claims that various financial players in the Western Balkans are considering sustainability when making financial decisions in both the public and private financial markets. This opinion is supported by surveys that covered both public and private financial markets. This includes commercial banks, insurers, institutional investors, development banks, and some of the biggest private equity firms. In the larger scheme of things, financial institutions with a sustainable perspective can contribute significantly to the growth of a green economy. They have the choice not to finance or lend money for projects or business models that are unreliable in terms of the environment or society. Additionally, sustainable and innovative business models may be given preference. Policy interventions, improvement of legislations, financial and fiscal instruments as well as other supports are required to foster the green finance investment toward a sustainable development of the Western Balkans.

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