4 Economic instruments

This chapter focuses on the “economic instruments” priority area, offering an analysis and suggesting policy recommendations to enhance circularity throughout the product value chain. Encompassing aspects related to product design, production, consumption patterns and end-of-life measures, the chapter examines existing policy instruments in Albania that could facilitate a transformative process, drawing insights from international best practices.

Definitions and concepts

Economic instruments are fiscal and other economic incentives and disincentives to incorporate environmental costs and benefits into the households' and enterprises' budgets. These can include subsidies, taxes, charges or fiscal transfers. The OECD defines economic instruments as "a means by which decisions or actions of government affect the behaviour of producers and consumers by causing changes in the prices to be paid for these activities" (OECD, 2008[1]).

Economic instruments have become an established and effective part of the waste management and circular economy policy landscape in OECD countries and beyond over the past four decades. Governments have used them to impact economic decisions throughout the life cycle (Figure 4.1). In contrast with regulation, these instruments seek to incentivise rather than compel private actors to take socially optimal decisions. They have two distinctive features: 1) they establish incentives for behaviour change; and 2) they offer flexibility in the degree and method to which actors can choose to change their behaviour. Ideally, incentives steer decisions towards a more circular pattern of activity, encouraging overall change and more vigorous innovation while leaving scope for cost-saving flexibility at the level of the individual decision maker.

Figure 4.1. Overview of economic instruments

Note: EPR: extended producer responsibility; PAYT: pay-as-you-throw.
Source: Adapted from OECD (2022[2]).

Motivations for the selection of economic instruments as a key priority area of the Roadmap

Economic instruments offer the prospect of achieving desired environmental outcomes at a lower economic cost because they create continual incentives for behaviour change and innovation, while granting agents the autonomy to determine the extent of action they can manage or desire to pursue. Moreover, they can be potentially revenue-generating. Economic instruments have been a central part of environmental policy making and have helped implement countries' circular economy policies. In particular, there is a long history of economic instruments used to incentivise households to separate and properly dispose of waste as well as to drive increased recycling rates of municipal and industrial wastes. They are, therefore, an area with high policy relevance and circularity potential in Albania, as such measures will be essential for achieving its recycling reduction targets.

Economic instruments were selected as one of Albania's roadmap priorities as they can provide further impetus for reform, following the revision of key legislative and policy frameworks, in particular in the aforementioned area of waste management, but also public procurement. Beyond national policy, the inclusion of economic instruments in Albania is fundamental to meeting its goals under the Green Agenda for the Western Balkans as well as advancing its European Union (EU) accession process through further alignment with Chapter 27 of the EU acquis. The roadmap can be instrumental in charting a course for wider use of economic instruments in Albania and for them to drive the roadmap's successful implementation. In addition, the cross-cutting nature of this priority area provides a comprehensive and balanced approach to the country's transition to a circular economy, as it can accommodate a variety of economic instruments that are relevant for multiple economic sectors (including tourism) and materials and that provide economic incentives to private actors throughout the value chain.

Introducing economic instruments can support the decarbonisation of value chains across relevant economic sectors in Albania, such as two of the horizontal areas presented in this chapter: waste management and tourism. Mitigation actions in the waste sector are essential for Albania to achieve the targets set out in its latest Nationally Determined Contribution that would see an 18% reduction of greenhouse gas (GHG) emissions by 2030 in this sector compared to the 2016 baseline (Ministry of Tourism and Environment, 2022[3]). As a cross-sectoral industry, the direct decarbonisation potential of tourism is more difficult to quantify, though on a global level it is estimated to contribute around 5% of total GHG emissions (UNWTO and ITF, 2019[4]). Emissions in the tourism sector can mainly be attributed to international transport as well as other activities linked to retail trade, food services and accommodation.

Economic instruments can also help to unleash circularity potential in Albania, particularly through increasing recycling rates and incentivising the adoption of more sustainable tourism practices. Currently, a low 18% of municipal waste is recycled and recycling companies only operate at 25% of their production capacity. Tourism activities also show high circularity potential, as they are the largest contributors to domestic material consumption that is dominated by biomass (42%), mostly wood and food, and non-metallic minerals (40%) used for construction, a sector that has seen considerable growth through tourism.

Overview and approach to the selection of the proposed policy recommendations

As indicated above, this priority area pays specific attention to economic instruments that can improve municipal waste management, as municipal waste management has been identified as an area with very high policy relevance in Albania due to its link with several national and EU accession targets and obligations. With the revision of Albania's waste legislative framework to ensure alignment with the EU Waste Framework Directive and the well-defined objectives and targets for different waste streams in its two waste management strategies, municipal waste management is an area where economic instrument

reforms can have the most impact. Economic instruments that can boost the sustainable development of other economic sectors – such as tourism, which has high policy and economic relevance for Albania – are also included in the recommendations.

Table 4.1 provides an overview of the proposed policy recommendations. They should be seen as a coherent policy package of economic instruments to achieve certain environmental outcomes rather than a list of individual economic instruments. Often a specific environmental goal requires a mix of instruments.

Table 4.1. Overview of the proposed policy recommendations in the economic instruments priority area for Albania

Short term	Medium term	Long term
Put in place planned extended producer responsibility take-back schemes	Implement landfill taxes with discounts for good sorting/high recycling	Introduce extended producer responsibility take-back schemes for new products (e.g. textiles)
Reform household waste charges (introduce a gradual increase of waste charges with discounts for good waste management practices, promote low-cost pay-as-you-throw schemes and improve enforcement)	Gradually increase the (mandatory) use of green criteria as award criteria in public procurement	Consider introducing material taxes on extracted materials/plastics
Introduce green public procurement, with a focus on priority sectors (capacity building, methodology guidelines)	Consider introducing a tourist tax to account for additional environmental costs related to tourism that are not covered by existing taxation schemes	Introduce minimum recycled content requirements within green public procurement (paper, plastics)
Introduce reuse and recycling credit schemes that offer payments for the removal of items from the municipal waste for recycling and reuse		Strengthen the use of tax relief for a circular economy (e.g. reduced value-added tax for eco-innovation, tax credits for food donations)
		Consider introducing incineration taxes

Key proposed policy recommendations

The proposed policy recommendations are structured around three key types of economic instruments:

1. extended producer responsibility (EPR) take-back schemes, which require firms to bear the costs of waste management for their post-consumer products, including responsibility for the collection and treatment of the products. In practice, EPR commits producers to take responsibility for collecting end-of-life products and for sorting them before their final treatment, ideally, recycling. This includes providing the financial resources to pay for the costs of related waste management and treatment activities.
2. fiscal instruments for the circular economy, which include environmental taxes and subsidies. In practice they work by changing the relative price of products and services. Environmental taxes impose a cost on firms and households for polluting activities, while subsidies decrease the cost of targeted products that have a positive impact on the environment. Subsidies indirectly increase the relative cost of polluting activities and products.
3. green public procurement (GPP) refers to public purchasing of products and services which are less environmentally damaging when taking into account their whole life cycle. GPP can provide industry incentives to innovate and develop environmentally friendly works, products and services with potentially lower waste disposal. They are also said to increase the supply of products and services that are more circular.

1. Increasing recycling and material recovery through EPR take-back schemes

EPR take-back schemes have been widely adopted by governments and companies and are currently the most commonly used for electronics, packaging, vehicles and tyres.

In Albania, municipal waste separation at source is almost non-existent, despite a legal obligation to do so. Only around 17% of generated municipal waste (for which estimates exist) is recycled (compared to 48% in the European Union) and the main method of managing municipal waste is disposal to landfill (80%) (INSTAT, 2023[5]; Eurostat, 2021[6]). A few pilot projects are, nevertheless, underway to introduce separate collection in some municipalities (in particular for paper and cardboard, aluminium, plastics, and bio-waste) and infrastructure is being improved with the construction of new recycling and incineration plants, mainly through funding from international development co-operation partners, with support provided through the EU4Circular Economy project. Moreover, a new law on EPR should be adopted in the second quarter of 2024 that will establish EPR take-back schemes for packaging; waste from electrical and electronic equipment; and batteries and accumulators in the country. The implementation of EPR schemes is planned as part of Albania's National Plan for Integrated Waste Management, with support also planned through the EU4Circular Economy project. Collected waste for which domestic recycling (or energy recovery) capacity does not exist can be exported for recovery operations under the international waste trade regime governed by a global environmental agreement, the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal. The agreement covers hazardous and other wastes and has nearly universal membership with 191 Parties to date, including Albania (Basel Convention, n.d.[7]).

In the short term, Albania will need to put in place the planned EPR take-back schemes to shift end-of-life management costs of products from the public sector to producers and consumers and increase the collection and recycling rates of these waste streams (see also Chapter 6). To do so, Albania will first need to ensure the application of the following principles (the selection of principles is based on the OECD EPR Guidance (OECD, 2016[8])):

- Clear legal framework: The legislation needs to be clear on the definitions and responsibilities of all actors involved in EPR. There needs to be a legal framework for producer responsibility organisations (PROs) to operate. The EPR targets need to be periodically reviewed.
- Transparency: The governance of EPR systems needs to be transparent to provide more effective means for assessing the performance of the actors involved and holding them accountable for their activities. This will require collecting both technical and financial data and setting up registers of producers, accreditation of PROs and appropriate sanctions.
- Sufficient existing waste management capacity: For EPR systems to work effectively, adequate waste infrastructure needs to be in place across the country, including for waste separation at source, collection and treatment (ideally recycling).
- Administrative oversight capacity for better enforcement: This concerns enforcement capacity to prevent unauthorised facilities and collection points from operating. This should also minimise free-riding and non-compliance.
- Stakeholder engagement: Platforms for dialogue among stakeholders need to be established.

As underlined in the diagnostics (see Chapter 2), the current draft EPR Law in Albania largely covers aspects of the OECD EPR Guidance, such as clear rules on the creation and functioning of PROs, a defined governance structure, and co-ordination among responsible institutions for implementing the law, alongside the obligations (e.g. reporting) and sanctions against non-compliance of registered producers or PROs.

To facilitate the adoption of general good practices and OECD guidance on EPR, authorities and other actors covered by the new EPR Law in Albania could make use of the EPR Toolbox (PREVENT Waste Alliance, 2023[9]), to consult other international practices and participate in the knowledge exchange in

order to enhance the functioning of the domestic EPR system. The EPR Toolbox contains three modules that span more general aspects of an EPR, including the monitoring of financial flows, but also focus on concrete actions, such as the integration of the informal sector or the creation of a market for recycled plastics (PREVENT Waste Alliance, 2023[9]). For example, as waste collection and sorting are labour-intensive, EPR schemes offer a great opportunity to integrate the informal waste sector into more formalised types of employment. PROs can offer attractive and formalised employment, thus encouraging waste collectors who have been working informally to apply for jobs (PREVENT Waste Alliance, 2023[9]).

Furthermore, it is important that Albania develops a system for proper data collection and processing. While certain technical requirements must be met, the first step towards ensuring the transparency of EPR schemes is effective co-ordination and compliance with reporting obligations under applicable legislation (namely, the EPR and the Law on Integrated Waste Management). The Czech Republic's electronic registry for waste is an exemplary model for a successful national waste information database. Recently rated as the best European system for waste data management and evaluation by the European Topic Centre for Circular Economy (Tuscano et al., 2022[10]), it employs two distinct systems. One handles the mandatory data reported by entities subject to relevant legal acts (Information System for Reporting Obligations) while the other manages the subsequent verification, processing and evaluation of the reported data (Information System for Waste Management). This streamlined process is further enhanced by extending verification authority to municipal and regional authorities, with the Environmental Information Agency functioning as the central data hub. By engaging a diverse array of stakeholders, including the statistical office, the information system becomes a catalyst for the development and implementation of evidence-based waste management policies.

In the long term, Albania can extend the EPR system to new product groups. This could include tyres (a common product group covered by EPR systems) and textiles. In particular, setting up an EPR scheme for textiles could be beneficial to manage the excess production of over 1 000 companies working in the sector in Albania. Moreover, it could also help Albania comply with the EU obligation to separately collect and achieve a high recycling rate of textiles by 2025. The European Commission has also proposed introducing mandatory and harmonised EPR rules for textiles as an amendment to the Waste Framework Directive, which would have to be transposed into the national legislation in all EU member states. Among EU countries, currently France and the Netherlands have a functioning EPR for textiles (Box 4.1 describes the example from France). Italy, Sweden and the United Kingdom are also considering implementing such a scheme.

Box 4.1. Extended producer responsibility for textiles and clothing in France

The extended producer responsibility (EPR) scheme for textiles (clothing, shoes and household linen) was introduced in France in 2007 under Article L-541-10-3 of the Environmental Code and further regulated by the enactment of the Anti-Waste and Circular Economy Law in 2020. It placed obligations on firms in the textiles and clothing sector in France to ensure a given standard of recovery and recycling. Firms could achieve this directly through their own actions or by contributing to an accredited producer responsibility organisation (PRO). In practice, a single non-profit PRO, Re_fashion (formerly Eco-TLC – Eco-organisme du textile, du linge et de la chaussure), has emerged as the sole vehicle for collective action in this sector. It was initiated in 2008 by a consortium of some 30 large retailers, manufacturers, wholesalers and industry organisations. In 2022, the PRO collected 260 kilotonnes from more than 6 500 marketers submitting declarations, comparable with the 827 kilotonnes of textiles placed on the market. While the collection rate increased by more than 15 000 tonnes compared to 2021, it remained below the national target (50% of products placed on the market).

Member contributions are based on the previous year's sales of items in four size categories of clothing and two categories of footwear. The contribution for a clothing item of average size was about EUR 1.16 cents in 2021. New eco-fees specifications are to be defined for the 2023-28 period. Reduced contribution rates ("eco-modulation") apply to producers promoting eco-design initiatives in three main areas: 1) durability; 2) the integration of recycled post-consumer materials; and 3) the introduction of recycled post-production materials. In 2021, the application of these reduced rates appears limited to less than 1.6% of total output, because the benefit of the reduced rates was insufficient to warrant the audit documentation that must be supplied. In 2022, the PRO carried out prospective studies for new eco-modulation criteria to address these challenges.

Re_fashion provides financial support for sorting and recycling facilities owned by private operators, including the non-profit organisations Le Relais and Emmaüs. Subject to meeting various performance and traceability requirements, a rate of 80 EUR/tonne is paid for items sent for reuse, 180 EUR/tonne for items sent to recycling and 20 EUR/tonne for items sent for energy recovery. Higher rates are paid to operators hiring disadvantaged workers. These subsidy payments account for about two-thirds of revenues from member contributions. Much of the remainder is devoted to consumer awareness campaigns and funding innovative demonstration projects and research.

In 2022, the reuse rate of collected textiles was roughly 59.5%. From its introduction in 2009 to 2022, the share of collected garments used as material for garnetting (recycling) grew from 14% to 31.3%; however, energy recovery also grew from 0% to 8.2%.

Sources: OECD (2022[11]); Re_fashion (2023[12]); Bukhari, Carrasco-Gallego and Ponce-Cueto (2018[13])

Two conditions could provide a good rationale for expanding EPR to certain product groups (OECD, forthcoming[14]):

1. A product group exhibits a relatively high cost of end-of-life management. This can be due to strict and costly requirements for the environmentally sound treatment of a specific end-of-life product or to the large waste volume and high share in overall waste.
2. There are opportunities for an EPR scheme to instigate changes in producer behaviour that lead to waste reduction, improved end-of-life handling or impact reduction during other phases of a product's life cycle.

2. Fiscal instruments for the circular economy

Environmental taxes and subsidies for increased reuse and recycling

In addition to the EPR take-back schemes, a number of fiscal instruments can change the waste disposal practices of those responsible for waste disposal towards more reuse and recycling. These typically include landfill and incineration taxes, which provide incentives to move up the waste hierarchy. There are also examples of countries that try to steer waste away from landfills by providing subsidies for redirecting waste destined for landfill to reuse or recycling. While fiscal instruments can provide cost certainty, their environmental impact depends on various factors, including the behavioural response from consumers and companies, a factor that is unknown *ex ante* (OECD, 2017[15]). The constant monitoring and adjustment of fiscal instruments must, therefore, be ensured to achieve the desired environmental outcome.

As indicated above, Albania currently faces many challenges in the area of waste management and does not implement any fiscal instruments that would divert waste away from landfills to operations such as reuse or recycling. Only around 89% of the population is covered by municipal waste services in Albania (INSTAT, 2021[16]), and the country still lacks adequate waste infrastructure, although international initiatives operating in Albania aim to address this challenge. Waste data monitoring also remains an important bottleneck to enforce proper waste management and implement waste-related taxes, as taxes tend to be based on quantities of disposed waste. While the waste reporting methodology was improved in 2021 and a project funded by international development co-operation partners supporting all municipalities in weighing their waste was conducted in 2022, waste data are still considered to be of poor quality. This is because they are primarily based on municipalities' and recycling companies' estimations, with the exception of the few municipalities that take their waste to a sanitary landfill or incinerator equipped with weighing equipment. Moreover, there is no systematic monitoring of the waste streams sent to dumpsites and no official data for industrial waste generated.

Certain pre-conditions, such as adequate waste treatment facilities, monitoring systems and a clear legal framework with rules and obligations for all actors involved, need to be put in place before such fiscal instruments can be effectively implemented. For example, to implement a landfill tax, it needs to be clear who pays the tax, on which waste and how much. Landfill taxes tend to be levied per tonne of waste, which requires that landfills be equipped with weighing equipment. Diverting waste away from landfill is possible only if alternative capacities for waste management exist across the country, municipal waste is properly collected from households and sorted at source or pre-treated before landfilling. Once the pre-conditions for a good functioning of waste-related taxes and subsidies are in place, Albania can take a number of actions to steer its waste towards reuse and recycling.

In the short term, Albania should consider introducing reuse and recycling credit schemes that would offer payments for the removal of items from the municipal waste for recycling and reuse. In Albania, most recyclable waste is still collected by informal waste pickers from dumpsites and bins and sold to the recycling industry. This is an illegal activity with potential health and environmental risks. To minimise these risks, Albania could set up a programme to facilitate the collection of recyclables from municipal waste through the use of third parties, who may be groups, charitable organisations or non-governmental organisations. The third parties would then be paid a credit or a subsidy per tonne of municipal waste collected and diverted from landfill to recycling. If this encourages employment in the informal sector through these third-party organisations, besides increased recycling, it may help also improve the socio-economic and environmental conditions pertaining to the activities of illegal waste pickers. Reuse and recycling credit schemes for local authorities as well as third parties are operating in the United Kingdom. These schemes are intended to incentivise the collection and recycling of municipal waste and could serve as an example of how to involve third parties in municipal waste management in Albania. Through these schemes, waste authorities pay credits to registered third parties (often non-governmental organisations) per tonne of reused or recycled waste that they collect from municipal waste

destined for disposal. The size of the credit may correspond to the savings to the authority made by this reuse and recycling as they no longer need to pay the price for landfilling (North London Waste Authority, 2023[17]). Any programme aimed at diverting waste from landfill will require that landfilling has a cost. The cost of landfilling must be sufficiently high compared to recycling. The landfill cost can be increased by imposing a landfill tax on top of gate fees. To ensure that the majority of diverted waste is not redirected to incinerators, an incinerator tax could also be envisaged. Recent investments in waste incineration plants in Albania (the first one started operating in 2019 in Elbasan and two additional ones are being constructed in Fier and Tirana), as part of the government's plans to divert landfilling and close the estimated 199 large uncontrolled dumpsites by 2028, should not come at the expense of the recycling industry and should not diverge the country from aligning with the EU *acquis* waste hierarchy principle.

In this context, Albania will need to implement landfill taxes in the medium term and consider introducing incineration taxes in the long term to provide strong incentives for recycling. The landfill taxes will help divert waste away from landfilling while the incineration tax will ensure that this waste is not redirected to incinerators but rather to recycling. Many countries levy landfill taxes to reflect the environmental costs associated with landfill use. In the EU27, 23 EU member states have implemented a landfill tax, as have Switzerland and the United Kingdom, varying from 5 EUR/tonne (in Lithuania) to more than 100 EUR/tonne (in Belgium). Four EU member states do not have a landfill tax currently in place (Croatia, Cyprus,* Germany and Malta) (CEWEP, 2021[18]). These taxes are typically charged on the weight or volume of waste delivered to landfill sites or on the authorised landfill capacity. Landfill taxes have been implemented alone or in combination with landfill bans and incineration taxes/bans as well as other quantitative restrictions (e.g. Belgium, Denmark, Estonia, Finland and Sweden). The taxes need to be sufficiently high for them to be effective (or they need to be imposed with a high gate fee). A challenge for Albania may be that the industry and municipalities may not be able to pay a high price for landfilling, and recycling can be also costly (or not in place), which may give rise to illegal waste disposal and littering. To mitigate similar concerns, both the Czech Republic and the Slovak Republic have introduced gradually increasing landfill tax rates, which are differentiated per waste stream (for example, a higher tax for hazardous waste and recyclables and a lower tax for mixed municipal waste and inert waste). Moreover, the Slovak Republic has integrated a system of discounts and incentive subsidies for well-performing municipalities and industry stakeholders to decrease their landfill costs and motivate them to landfill less (Box 4.2). Other tax design elements relevant to consider include earmarking the proceeds from the collected landfill taxes to environmental funds and limiting the number of exemptions to the payment of this tax.

* Note by Türkiye: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Box 4.2. Landfill tax system in the Slovak Republic

Since 28 November 2018, the new Act No. 329/2018 Coll. on Landfill Taxes establishes that each person or entity depositing waste to landfill shall pay a landfill tax, even if the landfill site is located on their territory. The municipality pays for the municipal waste to be landfilled on behalf of households. The current landfill tax does not apply to waste used for construction works, sanitary works, reconstruction works or backfilling purposes. Government Decree No. 330/2018 Coll. sets the value of landfill taxes for the different waste streams and the distribution of the revenues from these taxes (the decree was amended in April 2022 to significantly increase the landfill tax rates for construction and demolition waste and industrial waste, in effect from July 2022). To landfill mixed municipal waste and bulky waste, the landfill tax is calculated based on the share of sorted municipal waste. The landfill tax for other waste is calculated based on the landfill tax applied to such waste and to its volume.

The municipality is obliged to publish the sorting rate of its municipal waste (kg separately collected waste/kg total municipal waste). The proceeds from the landfill tax are earmarked for the Environmental Fund, unlike previously, where the proceeds went directly to the municipalities in whose territory the landfill was located. The Slovak Environmental Fund will redistribute the proceeds to:

1. Municipalities in whose territory the landfills are located or through whose territory the roads to the landfill pass (as a form of compensation). In 2021, this was equivalent to 5 EUR/tonne of disposed non-hazardous waste and 33 EUR/tonne of disposed hazardous waste for municipalities with a landfill site.

The remaining tax proceeds are split as follows:

2. Municipalities which sort their municipal waste above a certain threshold (this could be seen as an incentive subsidy to sort better): 60% of the tax proceeds from landfilling municipal waste after the deduction of the contribution paid to the municipalities under point 1).
3. Municipalities which implement a separate collection for biodegradable kitchen waste from households and which recover all of this waste in a facility set up for this purpose (a form of incentive subsidy for food waste reduction): 15% of the tax proceeds from landfilling municipal waste + 15% of revenues from landfilling industrial waste after the deduction of the contribution to municipalities in point 1).
4. Waste management operators: 25% of the tax proceeds from landfilling municipal waste + 40% of the proceeds from landfilling industrial waste after the deduction of the contribution to municipalities under point 1).
5. Entities which demonstrate a lower production of waste in their production processes: 45% of the proceeds from landfilling industrial waste after the deduction of the contribution to municipalities under point 1).

According to Act No. 587/2004 Coll. on the Environmental Fund, which regulates the use of the revenues from the landfill tax, subsidies from such revenues can be used for activities in line with the goals set out in the Waste Prevention Programme and the Waste Management Plan of the Slovak Republic.

Source: OECD (2022[11]).

While there is no clear visible pattern to indicate that incineration taxes lead to higher recycling and lower landfilling and incineration rates (EEA, 2023[19]), this does not mean that incineration taxes have not been effective in diverting waste towards more recycling. Incineration taxes have been used in combination with other policy instruments that together as a policy package incentivise more recycling. They also help internalise the costs of negative externalities from GHG emissions associated with waste incineration and

provide a clear signal to stakeholders that material recovery is to be prioritised over energy recovery. While energy recovery will help divert waste from landfills, to achieve the EU municipal waste recycling target of 65% and the landfill target of a maximum of 10% by 2035, only a relatively small share of municipal waste can be incinerated. Considering the contracts in place for the use of incinerators, Albania should ensure that it does not fall into a technological lock-in where overcapacity for energy recovery is created, which leads to fewer investments in recycling capacity.

Changing household disposal behaviour through municipal waste charges

Governments have introduced charges for the collection and disposal of household waste, which could be set as a flat fee, for example, per person per year, or as a fee based on the volume or weight of the waste collected, i.e. pay-as-you-throw (PAYT)-based charges. Different types of PAYT exist across countries and municipalities, which charge either directly, through individual measurement and billing (weight-based), or indirectly, through charges for bags, stickers or tokens, or by differentiating the charge by container size and the frequency of collection (volume-based). Several studies conclude that PAYT-based charges are more effective in inducing households to better sort their waste and increase municipal waste recycling rates compared to conventional flat-rate financed household waste collection charges (OECD, 2006[20]; Hogg, Sherrington and Vergunst, 2011[21]; Fullerton and Kinnaman, 1996[22]; EEA, 2016[23]).

Responsibility for household waste charges in Albania is a competency of municipalities, as they are responsible for municipal waste management. Currently, household waste charges in Albania are relatively low and insufficient to cover waste management costs. Moreover, municipalities struggle with enforcing the collection of waste charges. The European Environment Agency (EEA, 2021[24]) estimates that only around 20-40% of waste management costs are covered through these charges.

To strengthen the incentive effect of household waste charges on household behaviour, Albania will need to reform these charges, starting in the short term. The government will need to consider the potential redistribution impacts, as the increased price of waste collection may disproportionately impact low-income households. Therefore, it is proposed that the reform include the following elements:

- Gradual increase of household waste charges but with discounts for good waste management practices. For example, Italy introduced a discount for households on their waste charges if the household does home composting (Box 4.3). Some municipalities in the Slovak Republic (e.g. Bratislava) subsidised the cost of the starting kit (caddies and biodegradable bags) for separate collection of bio-waste for its residents to support the introduction of bio-waste collection in the city. These measures could be particularly relevant in Albania, as around 60% of waste generated is organic and three composting plants have recently started operating, with five additional plants planned to be opened in the short term (INSTAT, 2021[16]).
- Promotion of the implementation of low-cost PAYT schemes. Municipalities may choose the type of PAYT scheme that will work best for them, also given the existing waste management infrastructure, weighting equipment and costs. Typically, volume- and frequency-based schemes (including sack-based schemes)[1] tend to be less expensive to set up and operate than weight-based schemes; however, the weight-based schemes appear to be more effective in reducing the amount of household waste (Hogg, Sherrington and Vergunst, 2011[21]; OECD, 2006[20]). A hybrid system of individual billing based on a flat fee plus a variable charge could be also promoted, as a number of foreign municipalities (e.g. Parma in Italy) have done (Box 4.3).
- Households should only pay for the collection of their mixed waste and waste streams not covered by an EPR take-back scheme. As EPR systems are more widely implemented in Albania, the costs of the collection of recyclables should be financed more extensively by producers.
- Different solutions may need to apply to rural and urban areas. The waste collection and treatment infrastructure is likely to differ across the country depending on the population density of the different areas. In more densely populated areas with multi-family apartment buildings, which are

more common in urban areas, kerbside collection might be more cost-effective and more frequent than in areas with a low population density living in single-family homes. Volume frequency-based PAYT schemes may also be easier to implement in more densely populated apartment blocks than weight-based or bag systems, but their effectiveness in reducing mixed waste might be lower (as the incentive to reduce waste for individual households is more diluted in multi-family apartment buildings than in single-family homes where the discarded waste can be directly attributed to the household). In less densely populated areas, pay-per-bag charges have been set up in Bergamo (Italy), for example. The system in Bergamo functions based on compulsory purchasing of special bags for residual waste using a smart card associated to each household. Over time, the scheme helped increase the separate collection levels in the province of Bergamo to 57% (up from 42.5%) (Province of Bergamo, 2020[25]).

- A comprehensive awareness- and knowledge-raising campaign is critical to secure public acceptance of increased environmental charges, such as for municipal waste services. A higher financial burden and potentially regressive effects on income must be well communicated to avoid resistance from consumers while considering the introduction of compensatory measures for lower income households (Vona, 2021[26]). Higher revenues should also be justified for concrete uses in improved waste management that would result in tangible benefits for paying customers (i.e. a cleaner, immediate environment and improved health), to promote their participation.

Box 4.3. Examples of positive incentives within household waste charges from Italy

Waste charges consisting of a flat fee and a variable pay-as-you-throw based fee

In Parma, the waste fee is composed of two main elements: 1) a fixed part based on the number of household members and the square metres of the household; and 2) a variable part that essentially depends on residual waste generation (accounted in terms of number of set-outs) and home composting. The fixed part covers a minimum number of collections of residual waste per household, which is intended to cover the fixed costs of managing the system and concurrently to prevent dumping and littering. Additional removals are charged (EUR 0.7 per bag, EUR 1.4 per bucket and EUR 4.2 per wheeled bin). In terms of positive incentives, households get a 12% reduction in their fee if they do home composting. Households using nappies are not charged for the extra removals.

Similarly, in Contarina, the fee is composed of a flat and a variable fee. The variable fee penalises the number of times the non-recyclable dry waste bin is emptied and provides a bonus for those households doing home composting equal to a 30% reduction of the variable fee.

Sources: OECD (2022[11]); Zero Waste Europe (2018[27]); Zero Waste Europe (2018[28])

Experience from other EU member states demonstrates that a policy mix of measures is needed to support the implementation of household waste charges that would provide incentives for behaviour change, such as the implementation of well-designed PAYT schemes. This includes the introduction of additional economic instruments, such as landfill taxes and EPR programmes, as well as awareness raising on waste sorting and separate collection to counteract public misconception and opposition. Moreover, adequate and convenient waste infrastructure for waste separation and collection is also a pre-condition for a well-functioning municipal waste management system as well as a supporting regulatory framework (e.g. landfill bans, enforcement).

Environmental tourist tax for managing the external environmental costs of tourism

Albania has a strong tourism sector, which may generate negative environmental impacts that are not accounted for by existing economic instruments. Despite Albania's rich natural and cultural heritage, the

current growth of the industry is spurred mainly by mass short-stay and low-cost beach tourism during the summer months. Moreover, the expansion of the sector is often at odds with environmental goals. Significant and timely investments will be necessary to ensure a more responsible development of tourism through diversified activities, resilient infrastructure, specialised accommodations and quality jobs that respect the local environmental and social context. To this end, increased total tax revenue by the tourism sector could be earmarked for compensating the negative environmental impacts of tourism.

To help internalise the external environmental cost of tourism activities that are not accounted for by existing taxes or levies, Albania may consider introducing an environmental tax on tourism in the medium term. This tax may have differentiated rates depending on the environmental impact associated with different types of tourism. This could promote a change of preference in terms of tourism activities and/or compensate for the costs associated with tourism. However, as tourism affects different environmental fields (water, energy, mobility, waste, etc.), such a tax should not merely focus on promoting a circular economy and waste management and may be better suited to address a combination of different environmental externalities (OECD, 2023[29]).

Several European countries have implemented tourist taxes at the regional, local or city level (e.g. Switzerland, Amsterdam, Catalonia, Lisbon); however, in most cases, these are not environmental taxes, as their main goal is generating revenue rather than achieving some environmental performance goals. Typically, these taxes are fixed charges per night ranging from EUR 0.50 to EUR 5 or charged as a percentage of the price of the accommodation (up to 7% in Amsterdam). In Albania, municipalities can set a tax up to 5% of the accommodation price per night (Ministry of Finance and Economy, n.d.[30]). In the municipality of Tirana, for example, this varies between accommodation types, ranging from around EUR 1-3 per night, but not all municipalities make use of a tourist tax. While several tourist taxes use revenues to relieve some of the (environmental) pressures caused by tourism, there are few cases in Europe where the tax rate itself varies with explicit environmental criteria (e.g. the Balearic Islands Tourist Tax) (OECD, 2023[29]).

Based on these examples, there are a few aspects to take into consideration when considering an environmental tax on tourism (OECD, 2023[29]):

- Fiscal exemptions and preferential treatment in existing taxes or levies granted to the tourism sector and related to environmental externalities should be removed. For example, the tourism sector should not be taxed at lower rates for water consumption or municipal waste than residents.
- The tax could account for the costs of constructing and maintaining additional infrastructure capacity, such as roads, housing, water systems, and sewage pipes and waste services, which is only used during tourism peaks and that is typically paid for by local residents.

Environmental taxes for the uptake of secondary raw materials by producers

In the long term, Albania could explore the option of introducing new taxes on materials, such as construction aggregates or non-recyclable plastics, to increase the use of secondary or alternative materials. This would be particularly relevant in Albania with the recent growth of the construction sector, spurred by significant infrastructure and residential development. Albania could consider introducing a tax on aggregates, such as stones, gravel or sand, to send a strong price signal that would effectively diminish the attractiveness of sourcing in the mining and quarrying industry as well as the later use of such virgin materials for construction. Moreover, following the example of many EU member states (EEA, 2008[31]), resource charges could be considered for mining and extractions to cover the substantial administrative costs of reviewing environmental impact assessments and monitoring permit compliance. Empirical evidence from Denmark, Sweden and the United Kingdom suggests that imposed taxes on aggregates have contributed to a reduction in the use of primary aggregates in these countries in spite of their relatively low price elasticity.[2] However, the experience also suggests that additional policies, such as quality standards and subsidies, are needed to increase the demand for and supply of recycled and secondary

aggregates (Söderholm, 2011[32]; EEA, 2008[31]). These taxes should be distinguished from royalty payments that are associated with resource extraction. Unlike environmental taxes on aggregates aimed at increasing the use of secondary raw materials, resource royalties are only collected for revenue and social redistribution purposes (Otto et al., 2006[33]). Both instruments aim to address environmental and natural resource management issues; however, they serve distinct purposes and are applied differently in practice. Environmental taxes focus on internalising the costs of extractive activities and associated pollution while royalties are payments made for the use of virgin resources, ensuring equitable compensation among stakeholders involved in the extraction process (e.g. government, landowners, companies). Combined they offer a comprehensive approach to sustainable resource management, balancing economic incentives with environmental protection and equitable distribution of benefits.

Taxes on plastics intended to encourage the incorporation of secondary material in the design of products have been less widely used so far than taxes on single-use plastic items (e.g. plastic bags). While Albania amended its Waste Management Law to ban the use of certain categories of plastic bags in March 2022, there is currently no tax on certain plastic materials, such as non-recyclable plastic packaging. Such a tax could support the uptake of recycled plastic across a wide range of plastic packaging products, therefore, helping to reduce the consumption of virgin plastics (see Chapter 6).

Use of subsidies to support waste reduction

Countries also employ a diversity of tax benefits to stimulate upstream circular production strategies to use more recycled materials or upcycled products and support R&D and eco-innovation in general, including technologies and processes that eliminate or reduce waste throughout the production process. Most tax benefits, such as tax deductions from the corporate income tax, accelerated depreciation schemes and reduced/exempt value-added tax (VAT) rates are not circular economy-specific but apply to environmental investments.

Several countries also use tax benefits, such as exempt or reduced VAT rates or tax credits for food donations. Although the primary objective of food donation is not food waste reduction but to ensure the availability of good and healthy food to people from vulnerable groups, the potential to divert unsold products to these end-consumers does coincide with food waste prevention goals.

Albania does not have a legal and regulatory framework for encouraging food donations by local businesses to food banks (Food Bank Albania, 2023[34]).

In the long term, Albania could consider introducing new tax relief in the form of reduced or exempted VAT rates or tax credits that would support waste reduction objectives. This can be achieved directly, for example, by implementing tax credits or reduced/exempted VAT for food donations that help achieve food waste reduction in the food industry. Such a system would also require a clear legal framework with assigned responsibilities and rules on which food can be donated, as well as an infrastructure of food banks that would distribute donated food to vulnerable groups. Support for waste reduction objectives can also be achieved indirectly through broader tax relief for broader environmental investments. Such instruments should be implemented as part of a wider policy mix, where additional policy measures would help direct innovations to those that help reduce waste, such as eco-design requirements and promoting waste prevention through targeted communication and information tools.

3. Green public procurement for a more circular supply of products and services

GPP incentivises service providers to supply and invest in products and services that are more circular through the purchasing power of public authorities, which can be substantial in certain areas, such as infrastructure.

In Albania, the current Public Procurement Law (2020) prescribes contracting authorities to respect the requirements of environmental, social and labour legislation. The law further provides for the possibility of

including environmental and climate impacts in the award criteria (OECD, 2022[35]). In terms of policies, Albania adopted its first comprehensive National Public Procurement Strategy (2020-2023) in November 2020. It includes actions directed at developing specific legal provisions for the Public Procurement Law or secondary legislation for GPP, but no concrete advancements have been reported to date (Public Procurement Agency of Albania, 2023[36]). The Public Procurement Agency published a Green Procurement Roadmap (outlining rules for voluntary implementation) and a methodology related to GPP (providing general instructions and guidance on minimum requirements) in 2023 (Public Procurement Agency of Albania, 2023[37]). There is currently no information on the revision of the National Public Procurement Strategy (2020-2023).

To benefit from public authorities' purchasing power to increase the supply of circular products and services, Albania will need to establish an effective GPP system.

In the short term, Albania will need to ensure that a national GPP strategy and action plan include green criteria and targets for selected product groups, supported by sector- or product-specific methodological guidelines and capacity-building programmes for public authorities as well as other stakeholders. The most common product groups for which GPP criteria tend to be applied include copy and graphic paper, office IT equipment, food and catering services, or construction works. Addressing the specific needs of Albania's construction sector within this framework might be particularly impactful, given the levels of emissions[3] and public expenditure associated with this sector. There is a vast opportunity for Albania to reduce the environmental impact of public infrastructure projects, including tourist accommodation, by adopting GPP guidelines, criteria and targets for more circular and sustainable construction works.

In the medium term, Albania may want to gradually increase the use of green criteria among public authorities, in particular as award criteria. This can be done through stronger promotion of GPP among public authorities at all levels of government, developing a catalogue of good practices that potential suppliers may consult or introducing a mandatory element into the GPP. For example, the Slovak Republic has a mandatory application of GPP criteria in place for four product groups for state-level public entities. In 2022, the Slovak Public Procurement Act was amended to oblige state-level entities to include environmental aspects in public procurement in at least 6% of annual contracts (OECD, 2022[11]). There is no evidence of mandatory GPP criteria being more effective than voluntary ones, as the actual impact depends on the type of green criteria applied. These may be basic, and hence easy to comply with, with a small environmental benefit as a result (for example, a requirement to implement an ISO standard). When taking the mandatory approach, attention must be paid to ensure that sufficient incentives are still in place for bidders to compete on green criteria rather than solely on price (once the minimum environmental criteria are fulfilled) and that the pool of potential bidders does not become too restricted by applying overly strict selection criteria.

In the long term, Albania may use this economic instrument to support the use of secondary raw materials by introducing minimum recycled content requirements within GPP. This may be focused on paper and plastics materials in product groups, such as copy and graphic paper, and office supplies and furniture. In particular, focusing on plastics would also support the implementation of measures outlined in the plastics priority area. Box 4.4 provides an example of introducing minimum recycled content requirements from Italy and Japan.

Box 4.4. Examples of introducing minimum recycled content requirements within green public procurement

Japan

The Japanese Act on Promoting Green Procurement and its related Basic Policy on Green Procurement specifies environmental criteria to be considered when purchasing goods and services by the government or its administrative agencies. The environmental criteria include, among others, recycled content criteria for pulp and plastics used in the products designated for procurement. For example, the higher the recycled content share in an evaluated good, the higher the evaluation score for that good. For some of the goods, the policy requires minimum recycled content requirements. This is the case, for example, for coated inkjet colour printer paper, where at least 70% recycled pulp content is required, or for stationery products where items containing plastics contain at least 40% recycled plastics in weight of the total plastics and items containing paper contain at least 50% recycled pulp. Green public procurement (GPP) is mandatory for government agencies across a wide array of product categories.

Italy

Since 2016, all public entities in Italy are obliged to apply GPP criteria for products and services for which GPP criteria have been defined (Italian Public Contract Code). For some products, the presence of recycled content constitutes an award criterion that improves the evaluation score for the good or service. This is the case, for instance, of GPP criteria for textile products that reward the presence of recycled textile fibres or of by-products from industrial symbiosis processes as well as goods prepared for reuse and the presence of additional repair and maintenance services offered for the goods supplied (Ministerial Decree 30/06/21). Specific voluntary labelling and certification schemes enable companies to declare compliance with GPP criteria (both minimum and award criteria), such as the Remade in Italy environmental certification for recycled content. Moreover, minimum recycled content requirements constitute eligibility criteria to benefit from certain tax benefits targeted at enterprises.

Source: OECD (2024[38]); Ministry of the Environment, Japan (2000[39])

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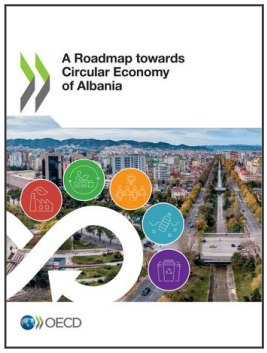
Notes

[1] In a volume-based PAYT scheme, households are charged based on the volume or size of the waste they generate. This could be measured by the capacity of the waste container or the number of bags of waste generated. Frequency-based PAYT schemes charge households based on the frequency of waste collection. This could involve a fixed fee for each collection or a subscription model where households pay for a certain number of collections per month or year. Sack-based PAYT schemes involve households using designated waste sacks or bags provided by the waste management authority. The cost is associated with the purchase of these sacks, and households are charged based on the number of sacks they use. This method encourages waste reduction, as households are mindful of the amount of waste they dispose of in the designated sacks.

[2] As the cost of aggregates is low in relation to overall construction costs, demand for aggregates is generally considered price inelastic.

[3] The manufacturing and construction sector contributed 12% of total GHG emissions in Albania in 2020, in third place after agriculture, transport and industry in terms of total contribution to GHG emissions (Climate Watch, 2022[40]). Most of the emissions in this sector can be attributed to the use of carbon-intensive material, largely cement. Estimates for this sector vary across sources due to the use of different methodologies.



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