Study on Establishment of the National Tourism Climate Fund (NTCF) in Montenegro

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Centar za održivi razvoj je program koji zajednički sprovode Vlada Crne Gore i UNDP

Policy Brief

Summary

The purpose of the proposed National Tourism Climate Fund (NTCF) is to provide assistance to the shift to carbon neutral tourism sector in Montenegro through providing financial support to carbon reduction projects across the sector.

Environmental Funds have played a useful role in financing environmental improvements in several Central and Eastern European countries. However, the first support programme solely for the tourism sector was launched in Croatia only in 2015. The experience of Environmental Funds and several recently established Climate Funds provide useful guidance for establishing Montenegro's NTCF.

The Headlines

- Results of the survey on Low Carbon Tourism in Montenegro show that there is a very poor awareness about carbon reduction measures;
- The same results also indicated a lack of knowledge about benefits and costs of carbon reduction measures for the sector;
- Even in the OECD countries, the tourism sector has a low awareness of of climate change mitigation and adaptation needs;
- Examples of projects such as Nearly Zero Energy Hotels or Renewable Energy for Tourism Accommodation Buildings can provide an important source of knowledge for the NTCF;
- The major priority for the proposed NTCF will be to raise awareness of tourism stakeholders as to the costs and benefits of investing in carbon reduction management
- The review of available financial instruments for carbon reduction projects in the tourism sector shows that there are very limited experiences with providing such assistance.
- Planning a support programme for the tourism sector has to take into account possibilities of involving and assisting private sector participants using public resources. Experience from other countries clearly indicates that there is high potential to cooperate with commercial banks especially on energy efficiency and renewable energy projects support. This option has to be further analysed by the Fund management at the NTCF design stage.

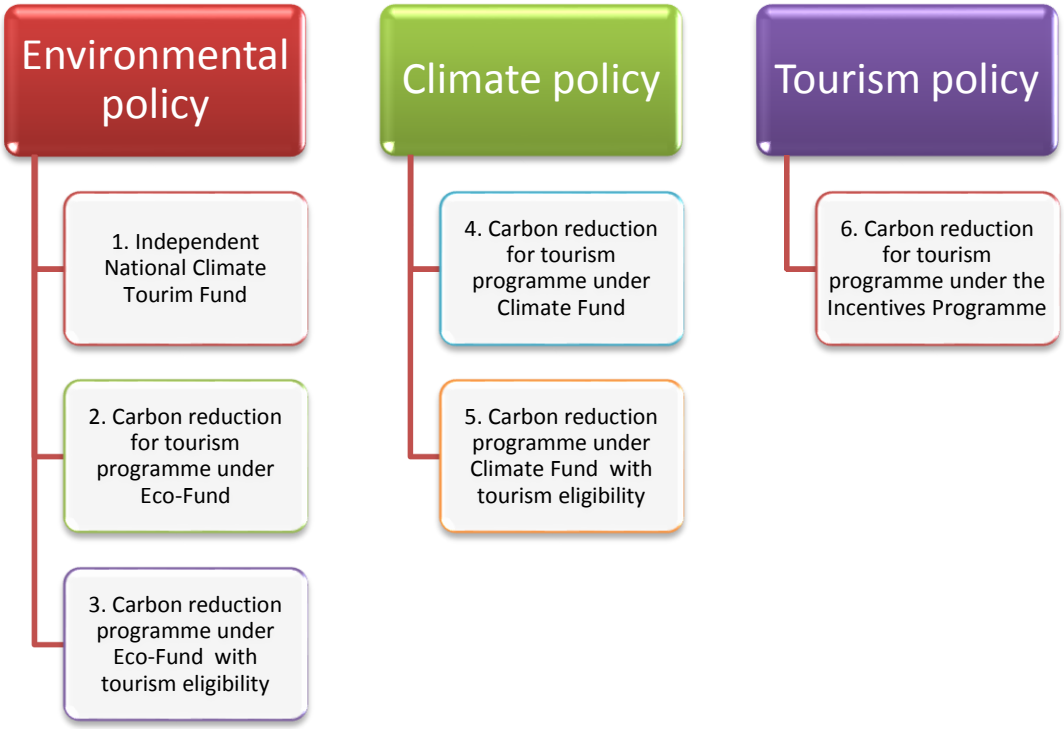
Recent developments in EU policy suggest that Montenegro, on its way of gradual transposition of the EU acquis,[1] will face the challenge of implementing policy such as the Directive on energy performance of buildings, and the Energy Efficiency Directive, which are relevant for tourism sector stakeholders.

[1] http://ec.europa.eu/enlargement/policy/glossary/terms/acquis_en.htm

Policy Support Mechanisms for the NTCF

The overall government policy has to encourage carbon neutral tourism development. The encouragement can take various policy forms e.g. through strengthening the overall strategic framework for supporting carbon reduction projects in tourism sector or by establishing a financial mechanism covering all the sectors of economy. The establishment of NTCF is a potential key supporting mechanism aimed at funding mitigation actions by the sector. Carbon reduction in the tourism sector can be approached from three different policy perspectives: 1) environmental policy, 2) climate policy and 3) tourism policy (Figure 1).

Figure 1 Funding Models and their Policy Perspectives



Models 1-6 give an opportunity to support carbon reduction measures in the tourism sector. Currently the highest potential is with establishment of the special programme under the Eco-Fund (Model 2).

Linking NTCF with Mitigation Priority Actions

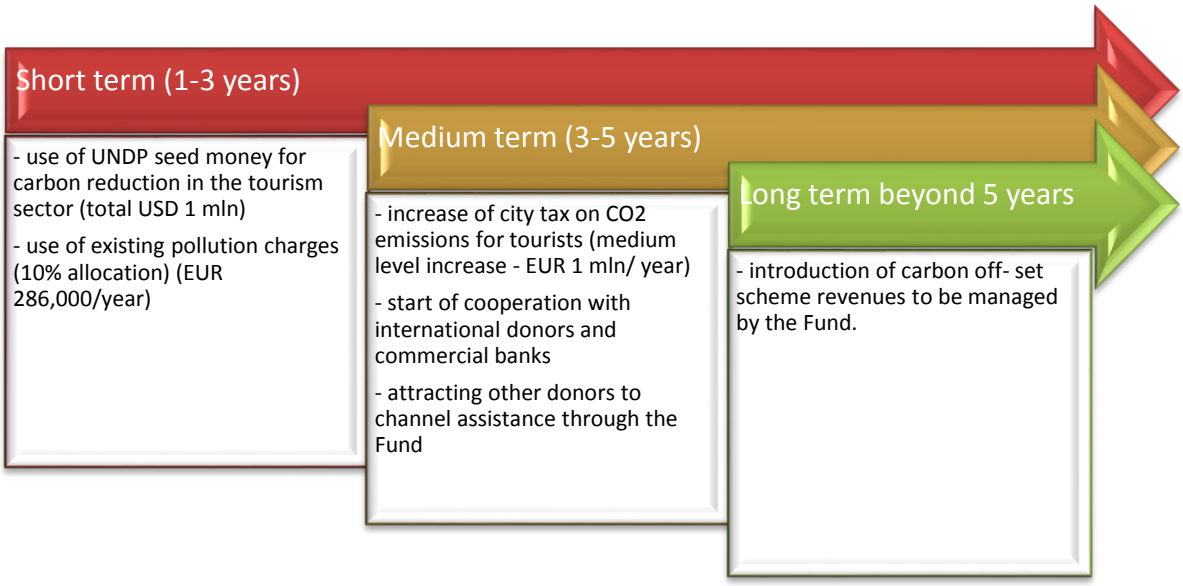
The forms and types of support should be designed for the priority actions. The areas with the highest mitigation potential in the tourism sector include:

- Energy efficiency improvements in the buildings (e.g. hotels and accommodation facilities)
- Energy efficiency improvements in public spaces (e.g. street lighting in touristic areas)
- Renewable energy development for the tourism facilities

- Support to the shift to sustainable transport (e.g. use of biofuels, modal shift, public transport development, mobility management, fleet renewal etc.)

Given that not all sources of capitalisation can be mobilised at the beginning of NTCF operations, the approach taken should allow for gradual mobilisation and evolution of sources of finance (Figure 2).

Figure 2 Gradual Mobilisation of Sources of Finance for NTCF.



It is proposed to apply a phased approach to establishment of the NTCF with:

- **Pilot phase** covering short-term 1-3 years will provide for development of standard needed documents and operations of the NTCF, including needed templates, procedures and operational documents. The implementation of the Pilot phase will be supported and tested through using the UNDP seed resources and possible first allocations from the existing pollution charges.
- **Long term vision** (from 3 years onwards) foresees establishment of fully fledged NTCF with extension of new sources of revenues and financing tools.

Pre-conditions and Steps for Establishing NTCF

- ***Working Group on establishment of the support mechanism***; as the first step to accelerate and to facilitate the process of establishment of the Fund a Working Group should be established comprising of the main stakeholders from the national authorities, municipalities, tourist organisation, tourism associations, UNDP and other interested stakeholders. Together with the Working Group establishment, the lead Ministry should appoint a coordinator who would lead the work of the Working Group.

- ***Policy articulation***; whichever of the models of the NTCF will be chosen, the mechanism has to demonstrate clear objective linked to achievement of objectives of relevant national strategies. Currently, the review of the strategic context provides little justification for establishment of a separate legal entity.
- ***Capacity Building***; as highlighted by all stakeholders, the topic of carbon neutrality is very innovative and new for the tourism stakeholders. Establishment of the NTCF has to be complemented by a major capacity building effort in order to increase the success of the proposed financing schemes. One of the main areas of capacity building is related to presenting the costs and benefits of carbon reduction projects for the tourism sector. In this respect pilot projects can play a very useful role.
- ***Competitiveness;*** integrating climate change aspects in the tourism sector has to take into account the balanced approach for the sector to increase its competitiveness and at the same time to contribute to CO2 emission reductions.
- ***Think big – start small***; the analysis of the potential sources of revenues shows that there is a need to adopt a gradual approach (over the next years) towards mobilising various sources of finance.
- ***Sustainability***; predictable financing over a long term should be available for the potential applicants. In the case of lack of long term financing only small non-complicated projects should be supported.
- ***Integration in the overall financing system***; the NTCF has to be well integrated in the overall financing system, especially complementary to other financing mechanism to provide a solid and comprehensive offer to the potential applicants.

The pilot phase requires employment of time, human and financial resources to develop operational modalities of the Fund. During the first three years of the pilot phase there is a need to provide necessary guidance on needed documents, procedures and operational rules in order to ensure smooth and gradual establishment of the Fund. At the first step it is recommended to establish a NTCF working group with multiply stakeholders' representation. The report provides guidance on further operational steps and documents to be developed starting from 2016 onwards.

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List of abbreviations

CBDR	Common But Differentiated Responsibilities
CDM	Clean Development Mechanism
EED	Energy Efficiency Directive
EBRD	European Bank for Reconstruction and Development
GHG	Greenhouse Gases
GDP	Gross Domestic Product
IDF	National Investment and Development Fund
IPA	Instrument for Pre Accession Assistance
INDC	Intended Nationally Determined Contribution
LCDs	Least Developed Countries
neZEH	Nearly Zero Energy Hotels
NCF	National Climate Funds
NSSD	National Strategy for Sustainable Development
NTCF	National Tourism Climate Fund
TA	Technical assistance
TICOS	Tourism Industry Carbon Offset Initiative
UNFCCC	United National Framework Convention on Climate Change
UNWTO	United Nations World Tourism Organisation
WEBSEFF	Western Balkans Sustainable Energy Facility
WeBSEDFF	the Western Balkans Sustainable Energy Direct Financing Facility

1.1 Introduction

The Study on Establishment of the National Tourism Climate Fund (NTCF) is prepared in the frame of the UNDP project **Towards Carbon Neutral Tourism in Montenegro**. The project seeks to adopt a comprehensive approach to minimising the carbon footprint of Montenegro's tourism sector. It promotes country's transition towards a carbon neural travel and tourism by facilitating development of supporting low-carbon policies and helping the tourism industry to identify and implement cost-effective mitigation options in travel and accommodation sectors, including minimising the energy use and transport in and around new development projects. It also seeks to introduce carbon off set schemes and financial mechanisms such as the NTCF. This study is developed under component 3 (see box 1) which aims at **mobilising additional resources for climate mitigation activities in the tourism sector.**

1.2 Rationale and objective of the Study

Montenegro is among the top three countries globally for **tourism sector contributions to the GDP, capital investment and job creation**. In 2012 travel and tourism's total contribution to the GDP reached 19,5% and it is projected to increase to 34.4% in 2023[2]. The investment in the sector corresponded in 2012 to 24,6% of total capital investment in the country and it is projected to grow up to 49% of total investment and providing over 30% of all jobs in the country by 2023.

Not surprisingly tourism sector, being a key driver of the economic growth and investment, is among the key development goals of the Government. The Development Directions for Montenegro for 2015-2018 lists **tourism among four key economic priorities** for country development.

Looking at the current and projected contributions of tourism to the economy of the country, the tourism sector is an **important contributor to GHG emissions** growth. Globally, it is estimated, that tourism accounts for 5% of anthropogenic CO2 emissions and that over the next 25 years GHG emissions from tourism are projected to more than double. To be in line

Box 1: Towards Carbon Neutral Tourism in Montenegro outcomes of project components

(1) Legal and regulatory framework supporting low carbon tourism and low carbon special planning, including increased certification of both existing and new tourist accommodation facilities and related services by internationally recognised environmental certification scheme(s);
(2) Improved low carbon and carbon neutral transport infrastructure to support tourism sector related public and non-motorised transport;
(3) Pilot investment projects to support low carbon tourism development implemented, followed up by the establishment of a sustainable financing mechanism to support climate change mitigation and adaptation actions in the tourism sector;
(4) GHG emission monitoring system and increased public awareness about the carbon footprint of the tourism sector, its GHG reduction potential and measures.

[2] www.wttc.org/research/economic-impact-research/country-reports/m/montenegro

with the international commitments global emissions have to be reduced by at least 50% from their 1990 level by 2050, if temperature stabilisation is to be achieved at less than 2 C average warming above pre-industrial levels[3].

Policy options to reduce the impact of tourism on climate change would need to reflect the wider context of the place of tourism in the economy and its connections to the global economy. **There are no internationally formulated emission reduction targets or mitigation strategies specific for tourism**[4]. While the aviation is the tourism sub-sector with highest emissions, there is also a need to limit emissions from other modes of transport and throughout the tourism supply chain.

Effective reduction of emissions would require **policies to support low carbon solutions** for the sector. The shift towards low carbon tourism would require **major investments in technology, a strong focus on carbon management by businesses as well as behavioural changes by tourists.** Nevertheless, the main responsibility for promoting emissions reductions lies with the government.

One of the options to facilitate the shift to low carbon tourism by the Government is through **establishing a financial mechanism** to support projects in the tourism sector aiming at CO2 reductions. Currently, the tourism sector has a limited access to financial sources aiming at or indirectly leading to CO2 reductions.

Development of a financial mechanism to support CO2 reduction projects from the tourism sector needs certain conditions, in terms of policy commitment, sound legal and institutional set up, reliable and predictable revenues stream and expenditures strategies, as well as knowledge on operational and management aspects of the Fund.

Currently Montenegro is at the early stage of its path to the carbon neutrality and therefore only the potential for establishing a sound financial mechanism is being analysed. It is necessary to analyse **the potential for establishing the NTCF**, to identify key preconditions for its establishment as well as to identify the tentative steps that can be taken to begin the process of NTCF establishment.

The aim of the Study is to provide **a road map to the relevant stakeholders (long term and short term vision) for establishing the Fund** over the next years, to **provide a set of preconditions needed for Fund establishment** useful for decision makers in their further work on designing a financial mechanisms for supporting CO2 reductions projects from the tourism sector and to provide a set of operational steps for the future Fund managers regarding needed procedures, rules and documents.

The Study is intended **to commence the process of the Fund establishment** by providing a road map for key stakeholders. Therefore the Study identifies also broader issues which need to be targeted in the upcoming years in order to create an effective and efficient financial mechanism.

1.3 Methodology

The main methodological steps leading to the Study development were:

1. Desk study of available literature on international experience and key relevant Montenegro documents (June 2015);

[3] IPPC 2007

[4] The only exception is the EU ETS for aviation.

2. Mission interviews with key stakeholders (June-July 2015)
3. Preparation of the inception report defining the structure and key issues to be taken into account (July 2015)
4. Preparation of the first draft final report (end of July 2015)
5. Second mission interviews with key stakeholders (September 2015)
6. Preparation of the draft final report (October 2015)

The Study was prepared from June – November 2015.

The Study was prepared by Ms Joanna Fiedler-Morotz, International Consultant on the Fund establishment with the inputs from Ms Ratka Stijepovic, Legal expert of the project and Diego Fernandez de Velasco, expert on climate offset schemes. The Study developed was coordinated by TCNT project team.

Approach to this study

- The document uses a working version of the name of the Fund namely the National Tourism Climate Fund (NTCF). It has to be noted that the subject of the Study is to propose a road map to **develop a financial mechanism for the tourism sector**, which might have one of many forms and/or names e.g. it can be an expenditure programme, expenditure line of the planned Eco Fund, investment programme; or fund. Therefore the NTCF should be treated as a working title and modified accordingly if needed in the process of its establishment.
- The Study focuses on establishing a mechanism to achieve CO2 reductions in the tourism sector in Montenegro. Therefore **the focus is given to climate change mitigation measures**. Climate change adaptation is mentioned only if relevant for the Study objectives.
- The modalities of the planned Fund are designed in a way that they can also serve as an input for the Ministry of Sustainable Development and Tourism on designing the modalities of the Environmental Fund.
- Due to the short term nature of the assignment, the study focuses on identification of the key issues which need to be tackled by key stakeholders and providing a road map of needed actions for developing a fund in the upcoming years. Therefore the study identifies a need for a follow up in-depth studies to be undertaken to support the establishment of the Fund.

1.4 Scope

The Tourism sector is defined as the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business or other purposes not related to the exercise of an activity remunerated from within the place visited[5].

Considering the short timeline for development of the Study and available resources the scope of the study is limited to (1) identification of main pre-conditions for the Fund development (2) designing the main modalities of the planned Fund (3) proposing a road map for the Fund establishment over the next three years.

When the text refers to the Fund – the planned National Climate change Tourism Fund is meant.

[5] UNWTO definition

When the text refers to the Ministry – the responsible Ministry for Sustainable Development and Tourism is meant.

1.5 Structure

The Study is structured along the following chapters:

Chapter 1 introduces the rational, objectives and methodological issues of the Study.

Chapter 2 presents wider background current situation which might influence Fund establishment and defines a set of preconditions needed to be fulfilled for establishing an effective and efficient mechanism.

Chapter 3 presents the main modalities of the Fund according to the project cycle management.

Chapter 4 provides an overview of key issues related to effectiveness and efficiency of operations of the Fund

Chapter 5 introduces a Operational Steps for further process of establishing the Fund.

BACKGROUND

2 Background

This chapter presents an overview of the broader; policy, financial, administrative and sectoral issues which had been identified as factors which might influence the establishment and operations of the planned Fund.

2.1 Overview of macro-economic context of Montenegro

The overall macro-economic situation of the country may determine the limitations for the planned Fund operations. Therefore the main features of the macro-economic context are presented below.

In 2013 economic growth in Montenegro was witnessed by the rise of GDP of 3.3% after the 2012 recession. The growth was mainly driven by external demand – largely due to higher exports in electricity and a strong tourism season. In 2014 growth was around 1.5%. The growth had a limited impact on the labour market and the unemployment rate remained high at 19.5%. A rise is expected in 2015 and 2016 (Estimated by EBRD respectively 3.0% and 3.7%) mainly driven by a major Chinese-financed highway project[6].

The current account deficit remains one of the highest at close to 15% of GDP. EBRD notes that as the country enters a new investment cycle, with several major projects in tourism, energy and infrastructure in the pipeline, the declining current account trend is likely to reverse.

Public finances in 2013 were under pressure, the activation of state loan guarantees for the aluminium produces, KAP, has weakened the government's fiscal position and elevated the government deficit to an unplanned 3.2% of GDP. A recent law on fiscal responsibility, which regulated budget execution and the issuance of state guarantees, sets a 3% GDP limit for the budget deficit and a 60% GDP limit for public debt.

Montenegro improved business environment, with an introduction of a number of business environment improvements, including a one-stop shop for permits, strict time limits for the issuance of approvals and a decrease in the number of procedures required for obtaining a permit[7]. The World Bank Doing Business 2015 report places the country at 36th out of 189 countries for overall ease of doing business.

EBRD Transition report highlights the need for improvement of the management of public finance as the level of public debt has risen sharply in recent years and needs to be addressed carefully. There is also a need for a comprehensive approach to tackle the non-performing loans (NPLs) with a coordinated approach by the government, central bank and local banks with a strong emphasis on supervision and enforcement rules. It also notes need for further improvements in the energy sector where the main challenges include unbundling the country's vertically integrated electricity holding company, developing renewable sources of energy (mini-hydro and wind), and strengthening the independence and competence of the energy regulator.

Montenegro, as a small and open economy is highly vulnerable to external shocks, such as the crisis in Ukraine. It is noted that diversification of the economy remains a challenge for building

[6] EBRD Transition Report 2014
[7] Ad idem

sustainable growth in the medium term, but visible progress in the EU approximations process should help to attract further foreign investment. **Future growth is mainly underpinned by tourism, energy and infrastructure investments.**

Observations relevant for the Fund establishment
The overall growth and future forecasts in growth are closely linked with the investments and developments in the tourism sector. **The tourism sector as an important contributor to be GDP is one of the strategic priorities of the Government**. The diversification of the economy remains the challenge. Integrating climate change aspects in the tourism sector, especially in the form of financial instruments (e.g. raising revenues for the Fund) must take into account the **balanced approach for the sector to increase its competitiveness** and at the same time to contribute to CO2 emission reductions. The current situation with the public debt allows for **little room for further indebtedness** of the public entities such as municipalities. This had been also confirmed in the discussions with the Ministry of Finance, that only few municipalities have potential for taking up loans. It has to be taken into account when designing the forms of assistance to be given by the Fund.

2.2 Climate change and climate finance commitments

It had been presented in numerous reports that the socio economic risks associated with the magnitude of climate change projects are high and probable. The risk projections feature prominently in various international debates. It had been concluded by the Intergovernmental Panel on Climate Change that climate change beyond certain threshold levels would impede the ability of many countries to make progress on sustainable development, and would become a growing security risk[8]. In addition Stern review concluded that the costs of economic disruption resulting from inaction would be far higher than the costs of reducing GHG emissions now[9]. IPPC also note that some additional warming from present levels cannot be avoided, but the extent of future temperature increases will heavily depend on global emission pathways. According to the estimates of the German Advisory Council on Global Change[10] limiting cumulative CO2 emissions to 750 Gt In the period 2010 – 2050 would give a 67% probability of limiting global warming to 2oC or less.

The global discussions on the reduction of GHG emissions are framed in the United National Framework Convention on Climate Change (UNFCCC). This Treaty aims at stabilising GHG concentrations in the atmosphere to prevent "dangerous interference with the climate system. It entered into force in 1994 and had been ratified by 196 parties in 2015. A Conference of the Parties (COP) has been held annually to establish a framework for intergovernmental initiatives to deal with the challenges posed by climate change.

Global targets for emission reductions are guided by recommendations made by the IPPC. Burden sharing between countries is negotiated under the guiding principle of Common But Differentiated Responsibilities (CBDR). This principle allows for increases in emissions by developing countries to facilitate economic development, while developed countries reduce emissions more substantially.

[8] IPCC, 2007
[9] Stern, 2006
[10] WBGU 2009

The Kyoto Protocol provides legal framework for emission reductions. It ascribes differentiated responsibilities to countries to reduce GHG emissions, depending on their economic development and emission levels.

In the context of the international agenda, preceding the next COP meeting in Paris in 2015, the Government of Montenegro submitted its Intended Nationally Determined Contribution (INDC) in September 2015. The INDC highlights the fact that the country, as well as the whole South East Europe region, is highly vulnerable to the impacts of climate change thus avoiding dangerous climate change is or paramount importance for the country. The document also notes that size of the country causes reduced flexibility in the application of policies in some emitting sectors, where single source of emissions can be dominant, distorting the emission profile of the country. It also notes that tourism is one of the main drivers of the economy. **Further to that Montenegro contribution to the international effort to avoid climate change is expressed in 30% emission reduction by 2030 compared to the 1990 base year.** The reduction is to be achieved by general increase of energy efficiency, improvement of industrial technologies, increase of the share of renewables and modernisation in the power sector.

Tourism industry commitment to climate change

The World Travel and Tourism Organisation prepared a report[11] setting a vision on tacking GHG emissions from the tourism sector. More than forty of biggest travel and tourism companies committed to cut carbon emission levels to half of their 2005 levels by 2035.

The travel and tourism businesses are suggested to take the following actions:

- Take the lead in setting carbon reduction targets and timelines, monitoring sectoral achievements at home and in destinations
- Collaborate at regional, national and international levels to overcome the difficulties of an industry fragmented by complex supply chains and characterised by SMSs and micro enterprises.
- Invest in energy control systems and staff training to implement monitoring and reporting of CO2 emissions and energy efficiency
- Ensure that financial reporting systems take account of efficiency and energy gains achieved through restricted business operations in the light of necessary emission reductions
- Recognise opportunities for innovation arising from hard-edged business constraints
- Commission, support, sponsor and use research into alternative business models and changing consumer behaviour
- Be mindful that competitive success can be based not only on price and product, but also on promoting actions and progress to consumers and on taking action beyond that which is legally required.

The UNWTO is working extensively on promoting sustainable tourism. Developed sustainability principles refer to the environmental, economic, and socio-cultural aspects of tourism development and a sustainable balance which must be established between these three dimensions in order to guarantee its long-term sustainability. The principles state that sustainable tourism should:

[11] WTTC 2009, 2010

- Make optimal use of environmental resources that constitute a key element in tourism development, maintaining essential economical processes and helping to conserve natural heritage and biodiversity;
- Respect the socio-cultural authenticity of host communities, conserve their built and living cultural heritage and traditional values, and contribute to inter-cultural understanding and tolerance
- Ensure viable, long-term economic operations, providing socio-economic benefits to all stakeholders that are fairly distributed, including stable employment and income-earning opportunities and social services to host communities and contributing to poverty alleviation.

The World Economic Forum task force on Low Carbon Prosperity prepared a report Towards a low carbon Travel and Tourism Sector[12]. In the report the following mechanisms are suggested to achieve emission reductions (1) a carbon tax on non-renewable fuels; (2) economic incentives for low-carbon technologies (3) a cap-and-trade system for developing and developed countries and (4) further development of carbon trading markets.

Observations relevant for the Fund establishment

Numerous reports of recent years acknowledged that climate change beyond certain threshold levels would impede the ability of many countries to make progress on sustainable development and would become a growing security risk.

Montenegro, as part of UNFCCC is involved in global discussions on GHG emissions reductions. In September 2015 it submitted its Intended Nationally Determined Contribution (INDC) to the international effort to avoid climate change expressed in **30% emission reduction by 2030 compared to the 1990 base year**. This reduction is planned to be achieved through energy efficiency, renewable energy, improvement in industrial technologies and modernisation of the power sector.

The new objective of the country expressed in the INDC **opens the room for the planning financial support to the key economy sectors such as tourism**, where energy efficiency improvements and renewable potential is high and could contribute to achievement of the country objective. Nevertheless, the share of contributions to the GHG emissions in the country has to be taken into account with energy, transport and industry being the main GHG emitters.

As a response to the global challenges, the Tourism sector is working globally on tackling GHG emissions, the initiatives of the World Travel and Tourism Organisation and UNTWO aim at promoting measures to reduce climate change impacts and to promote more sustainable tourism. Low carbon travel and tourism is expected to be encouraged by measures like; introducing carbon tax on non-renewable fuels, economic incentives for low-carbon technologies, a cap-and-trade system for developing and developed countries and further development of carbon trading markets. Effectives and efficiency of the planned **Fund has to be linked to a common and mutual effort of the Government and the representatives of the Tourism industry,** especially on the capacity building

[12] WEF. Towards the Law Carbon Travel and Tourism Sector 2009

on carbon neutrality of the tourism stakeholders and proposing support and incentives for carbon reduction behaviour.

2.3 Overview of practices of supporting climate related projects in the tourism sector and the role of environment and climate funds

2.3.1 How countries support carbon neutrality for the tourism sector

This chapter presents an overview of the countries' strategies and overall policies to support climate change interventions in relation to the tourism sector. Establishment of the Fund has to be seen as a tool for achieving well identified policy goals and as an element of policy mix to stimulate the shift to carbon neutral behaviour.

Recently concluded study on Climate Change and Tourism Policy in the OECD[13] countries revealed that many governments and tourism organisations **favour reducing the emissions from tourism in line with the reductions required of other sectors**. Some governments, because of the structure of their economy and the important contribution of tourism will seek to achieve net emissions reductions through balanced initiatives across various sectors of economy.

As there are **no binding emission reduction targets** or mitigation policies so far formulated specifically for tourism, the experience of the countries shows a number of ways to initiate a policy response. In that respect, global, national and regional **climate policies play a significant role in achieving any significant decarbonisation of global and national tourism systems.**

Box 2: Example from Austria

In Austria the **state environmental grant scheme** is being implemented by Kommunalkredit Public Consulting. Kommunalkredit provides programme management support for enterprises according to the Environmental Support Act for investment projects in the fields of renewable energy, energy efficiency, waste to energy, measures reducing air pollution and treatment of hazardous waste. Kommunalkredit is managing the entire programme from receiving the grant applications, appraising them (technical, economic and financial evaluation), concluding the grant contracts and fiduciary management (disbursing the grant funds). Support is provided to the sub-sectors of: small scale hydropower plants, regional environmental protection programmes, energy efficiency improvements in the housing sector, reduction of emissions, use of renewable energies and research in the field of environmental protection. Within the scheme hotels and other business focused on tourism can apply for grants resulting in energy-saving measures. Climate Austria[1] is also run by Kommunalkredit Public Consulting and is a programme where businesses and individuals can offset their CO2 emissions. Regarding tourism sector, the programme cooperates with Austrian Airlines and provide people the opportunity to offset the CO2 emissions on their travel directly from the Austrian Airlines website. Climate offset is achieved by investing in voluntary contributions in climate protection projects, primarily in Austria and, upon request, also abroad. Since the establishment of the Programme (2008), 1.5 million euros have been collected and thus supported voluntary climate change projects.

The experience of the OECD countries[14] showed that one of the most efficient way of initiating change towards low-carbon tourism economies is by **raising the costs of energy and emissions through taxes or tradable permits**. The possible energy price increases are increased per year, signalled in advance, and foreseeable over a long time period, to allow affected companies to integrate energy costs in long-term planning and

[13] Climate Change and Tourism Policy in OECD countries. OECD. UNEP.
[14] Ad idem

decision making. In some cases increasing the cost of fossil fuels and subsidies to renewable energy sources may also stimulate the shift to low carbon tourism. The OECD countries **use a mix of tools such as**: supporting renewable energy systems, shifting fiscal burdens to reward low carbon consumers, tax breaks or tax relief for businesses investing in low carbon technology or management, as well as grants, matching funding, benefits kind or other incentives to support best practice, innovation and more costly restructuring and retrofitting. The introduction of a tax on fuel, or on emissions that is proportional to fuel use or to emissions produced can be seen as a good practice to ensure cost-efficient abatement.

There is also a **low awareness of the tourism sector** in the OECD countries on climate change mitigation and adaptation needs, lack of knowledge and research regarding the complexities of tourism-climate interrelationships, and overall lack of mitigation and adaptation plans and policies.

In order to shift to low carbon tourism, the OECD countries need to work on the following policy elements[15]:

- **Knowledge and awareness**; there is a need for national tourism emission inventories, as well as policies requiring companies to assess their energy use and emissions.
- **Mix of measures**; technology innovation, emissions management in businesses, behavioural change (demand management), education, research and development have all important role to play in restructuring tourism sector
- **Carbon pricing and emission trading**; there is a need for economic instruments to steer energy use and emissions, conveying clear, long-term signals to the market;
- **Regulation**; while carbon pricing is the most efficient tool to stimulate the change, regulatory measures such as building codes or minimum standards to reduce emissions support the shift to carbon neutral sector
- **Incentives**; low carbon technologies can be awarded by tax reform to shift the tax burdens from labour to energy and natural resources and thus reward users of low carbon technologies.

An overview of examples of counties' strategies is presented in Annex 1

The role of EU policies in supporting carbon reduction projects in the tourism sector

Montenegro on its path to the EU Accession as an EU candidate country is in the process of gradual transposition of the EU acquis and relevant policies. Some of the EU policies will affect the way how the tourism sector operates. Examples of the policies stimulating carbon reduction measures relevant for the tourism sector are presented below.

The EU policies focus on the buildings which are central to the EU's energy efficiency policy, as nearly 40% of final energy consumption and 36% of GHG emissions is in houses, offices, shops and other buildings. Improving the energy performance of Europe's building stock is crucial, not only to achieve the EU's 2020 targets but also to meet longer term objectives of the EU climate policies.

The most relevant EU Directives are:

[15] Ad idem

Directive 2010/31/EU on the energy performance of buildings (EPBD) is the main legislative is the main legislative instrument at EU level for improving the energy efficiency of European buildings. The key requirement is related to so called nearly zero-energy buildings (NZEBs). The directive (Article 9(1)) requires that MS should ensure:

(a) By 31 December 2020, all new buildings are nearly zero- energy buildings;
(b) After December 2018, new buildings occupied and owned by public authorities are nearly zero – energy buildings.

The Directive requires EU MS to draw up national plans for increasing the number of NZEBs, which may include targets differentiated according to the category of building.

Box 4: The EU Initiative Nearly Zero Energy Hotels (neZEH)

The Initiative aims at accelerating the rate of refurbishment of existing hotels into Nearly Zero Energy Buildings (NZEB), providing technical advice to hoteliers for nZEB renovations, demonstrating the sustainability of such projects, challenging further large scale renovations through capacity building activities, showcasing best practices and promoting front runners. The project covers selected hotels in Greece, Spain, Italy, Sweden, Romania, Croatia and France. In the long term the project will assist the European hospitality sector to reduce operational costs, to improve their image and products and thus to enhance its competitiveness, contributing in parallel to the EU efforts for the reduction of GHGs.
Initiative started in 2013 and will end in April 2016. It is co-financed by the Intelligent Energy- Europe (IEE) Programme.
The project produced a paper on Financing tools and funding opportunities for large scale refurbishment projects in the hotels sector. More information
http://www.nezeh.eu/home/index.html

Box 3: RELACS – Renewable Energy for Tourist Accommodation Buildings- Sustainable energy for competitive tourism accommodation

The main goal of the project was to (1) design a concerted frame of activities to assist hotel managers in decision-making process, (2) to provide unbiased information about possible sustainable energy measures and solutions (3) to promote energy audit as the core of the decision-making process. The project operated in 10 different European regions:
Upper Styria in Austria, the Black Sea Bourgas district in Bulgaria, Mecklenburg-Western Pomerania in Germany, the Prefectures of Thessaloniki & Chalkidiki in Greece, the Lake Balaton resort area in Hungary, the neighbouring provinces of Modena and Reggio Emilia in Italy, the Almada Municipality in Portugal, Aragon in Spain, the South-East region in Sweden and the Brecon Beacons, Cotswolds, Forest of Dean and Wye Valley in United Kingdom.
Project final report
https://ec.europa.eu/energy/intelligent/projects/sites/iee-projects/files/projects/documents/relacs_final_report_en.pdf
Project website include "European Catalogue of Shining examples".
More information: http://www.relacs.eu/home.php

According to the Article 4 of the **Energy Efficiency Directive** (EED) EU Member States have to submit their **national renovation strategies** to the European Commission by April 2014 and renew them each 3 years afterwards. **Renovation roadmaps are long term strategies for mobilising investment in renovation of the national stock of residential and commercial buildings, both public and private.**

There are several example of initiatives and projects at the European level which are relevant for the carbon reduction in the tourism sector and showcasing best examples to the tourism industry in Montenegro. Examples are presented in box 3 and 4.

2.3.2 Best practices on Eco Funds

Several environmental funds have been in successful operation in Central and Eastern Europe. Best practices and lessons learnt have been reviewed for five countries; Croatia, Czech Republic, Estonia, Poland and Slovenia. Environmental Funds in these counties are considered as successful mechanisms for financing environmental improvements. Best practices relevant for this Study are presented below. An overview of the Funds is presented in Annex 2.

- ***Established by possibly highest legal act***; many environmental funds have been established by the highest legal act i.e. special Law. This practice allows for ensuring long term planning and existence of the institution, reducing the political interference, and defining the main long term objectives of the Fund and its contributions to the environmental policy of the country.
- ***Element of the national environmental financing system***; all reviewed Funds are part of the broader environmental financing system of the country and are used as a tool or mechanism to provide specific support to complement other forms of support e.g. fiscal measures and non-financial incentives.
- ***Flexibility in using a variety of forms of assistance and set up***; Funds were able to provide a variety of forms of assistance, although at the beginning of their operations they were using simple forms like grants or technical assistance. With the growth and expertise more complicated forms like loans, or guarantees were also proposed to meet the needs of beneficiaries and to adjust to the overall market situation.
- ***Partner in implementing EU Funds***; the experience shows that the institutional capacities gained through management of national resources enabled many Funds to present themselves as a reliable partner for implementation of the EU Funds.
- ***Close link to EU Accession***; on their path to EU Accession, the Funds were supporting programmes which were closely linked to the obligations resulting from implementation of the environmental acquis and EU Accession priorities.
- ***Mix of sources of revenues***; many Funds use a mix of sources of revenues which is an effect of evolution from using only domestic source like pollution charges; moving on to

Box 5: Advantages of National Fund public private partnership with commercial banks on solar collectors scheme (Poland)

- Banks have operations throughout the country and therefore the programme have a large reach
- There was a need to increase access to loans for financing the purchase of environmental technologies by households, and such partnership facilitates this new form of financing
- Partnership with banks means that few resources are required from the public administration to successfully implement the project, making this a cost-effective initiative. The Fund can therefore transfer its limited resources (people, time) to other programs which overlooking the successful implementation of the program by banks
- Entering a partnership with 6 banks the Fund creates a competition among the banks to offer the most favourable lending scheme to customers.

Based on www.nfosigw.gov.pl

becoming an implementing body for the EU Funds and further on to climate policies implementing schemes such as Green Investment Scheme. It has to be noted that for the majority of Funds domestic sources of revenues are dominant and other forms have complementary role.

- ***No focus on tourism sector***; none of the reviewed Funds have provided a dedicated programme aiming at carbon reduction measures in the tourism sector. Existing programmes for energy efficiency and renewable energy support usually are eligible for all sectors of economy (including tourism). Programmes are designed for various groups of stakeholders based on their legal status (public, private) or the size (SMEs, industries etc). The first ever programme supporting tourism sector has been launched in 2015 by Croatian Fund. It is public call for co-financing RES projects solely in the tourism sector. It is too early to have any lessons learn on the implementation of this programme.
- ***Taking advantage of emissions trading system***; Many Funds are participating as implementing agency on Green Investment Scheme e.g. Poland, Estonia which is designed under the Kyoto Protocol. It enabled the countries to provide assistance on energy efficiency and renewable energy development for a variety of sectors.
- ***Programmes linked to specific objectives***; Programmes designed by the Funds are always in response to a specific policy objective e.g. the obligation of the EU MS to reduce their CO2 emissions below 1990 levels by 20% b 2020.
- ***Analytical work done before the launch of the programme***; the experience of the Funds shows that the Funds were conducting an extensive analytical work before the launch of the specific programme e.g. analysis of technologies employment, technological potential, analysis of energy users the best methods and tools to reach the foreseen objectives.
- ***Limited public resources demand a creative financing scheme***; many Funds practiced partnerships with the commercial banks e.g. providing subsidies to loans for energy efficiency improvements.

- ***Clear response to an identified problem***; e.g. in Slovenia support to energy efficiency in buildings was identified as a response to a problem that buildings contribute 40% of end energy use and cause one third of all GHG emissions. EU policy calls that the EU MS should prioritise the building sector as key to meet their national targets on energy efficiency.

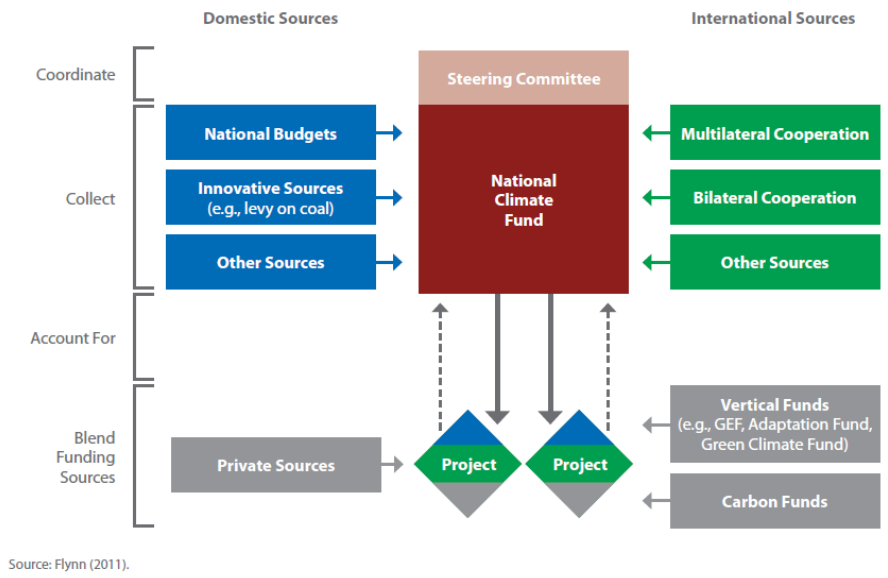
2.3.3 Best practices on climate funds

National Climate Funds (NCF) are a tool that can help countries to respond the challenge of coordinating recently increased flows of climate finance from developed countries to developing countries which is a result of pledges by developed countries of up to 1000 billion USD assistance annually by 2020 to be provided on climate change. Today the landscape of funds dedicated to climate change includes public, private, bilateral and multilateral sources and offer to many countries to address their climate and development needs.

NCF are considered to be especially useful for the developing countries which face a challenge of managing (e.g. donors requirements, processes, reporting) funds from various sources. NCF provide a country-driven system that can support climate change goal setting and strategic programming;

oversee climate change project approval, measure project implementation and performance, offer policy assurance and financial control[16] .

The place of National Climate Funds as Part of the International Climate Finance Landscape is presented in the graph below.



Source: Blending Climate Finance Through National Climate Funds. A guidebook for the Design and Establishment of National Funds to Achieve Climate Change Priorities. UNDP. 2011

Although the NCF are practiced mainly by developing countries to coordinate better the increased flows of climate finance, some of the experiences and practices on supporting projects could be useful for Montenegro on its path of designing environmental funds system.

The main features and functions of NCF include[17]:

- ***Goal setting***; providing a system that supports goal setting and the development of programmatic strategies on climate change.
- ***Fundraising*** towards climate priorities; the capitalisation of the Fund; its ability to collect and raise funds is one of its core functions. Capitalisation can take various forms and can utilise public, private, multilateral, bilateral and innovative sources of finance.
- Mechanism ***to manage partnerships***; clearly defining and coordinating the roles of various climate change stakeholders. The NCF can complement and support the management of relationships with other financing mechanisms. It can also ensure the clear management of the responsibilities of stakeholders at all levels and across climate change initiatives

[16] Blending Climate Finance Through National Climate Funds. A guidebook for the Design and Establishment of National Funds to Achieve Climate Change Priorities. UNDP. 2011
[17] Ad idem

- **Project approval and implementation structure**; NCF imposes a uniform project cycle that clearly outline the technical and eligibility requirements. It enhances the transparency of the approval process.
- **Quality standards;** NCF offers policy assurance through social and environmental safeguards, financial controls that ensure fiscal monitoring and reporting and performance measurement.
- **Knowledge and information management;** NCF becomes an important awareness raising and know how center by disseminating lessons from implementation of climate change projects and programmes.

An overview of selected climate funds (Indonesia, Bangladesh, China, Ecuador, Brazil) features and modalities is presented in Annex 3.

2.3.4 Overview of carbon off set schemes used for tourism sector

Carbon offset schemes can be considered as a source of financing carbon reduction projects. Therefore this mechanism is analysed as a potential source of finance projects by the Fund. The chapter gives a snapshot of the types of initiatives and practices worldwide which are relevant for the tourism sector.

A carbon offset is a credit obtained for diminishing or eliminating the impact of emitting a ton of carbon dioxide equivalent (CO2e) by paying someone else to absorb or avid the release of a ton of CO2e elsewhere. Carbon offsetting involves taking responsibility for any **remaining emissions** by financing low carbon development projects elsewhere (not in the place where the emissions happened). It means that carbon offsetting is proceeded by an effort by the CO2 emitter to reduce the CO2 emissions as much as possible "in house". Therefore carbon offsetting is used to help to mitigate inevitable carbon emissions as a complement to direct reduction measures.

In the case of the tourism sector, carbon offset schemes are often used as a marketing tool for "green positioning" of the industry; eco-conscious tourists would look for carbon-neutral destinations. Carbon off set schemes can be mandatory or voluntary.

The literature review shows that none of the mandatory carbon offset programmes identified includes the tourism / hospitality sector.[18] The same applies to most of the voluntary programmes, at least explicitly. On the other hand, there are many different voluntary carbon-offsetting examples in this sector that can be used as a reference in Montenegro's carbon neutral initiative.
Carbon offset initiatives and programmes created on different levels:

- **Initiatives at country level**: the initiatives cover all of the sectors of economy; for example Costa Rica aims to become carbon –neutral by 2021. It intends to reduce its fossil fuel emissions, and increase its carbon sinks, to reach zero total emissions. The goal of carbon neutrality will be used by offsetting all of the country's carbon dioxide emissions. It will be reached using budgeting, laws and incentives, including measures to promote biofues, hybrid vehicles and clean energy. The government of Seychelles, for which tourism is

[18] Aviation has recently been included in the EU ETS since 2012. However, it is not the goal of this desktop study to analyse this policy instrument in relation to the tourist sector (not designed for the tourist sector but recently included airlines as one of the relevant sectors emitting GHG).

essential to the economy, realises that it is not possible to reduce carbon emissions generated by airplane arrivals of tourists and therefore offsetting appears at the most realistic option to mitigate its climate change impact. It aims that Cousin Island will become the World's first Carbon Neutral Nature Reserve.

- **Sector programmes**; sector level programmes include a commitment of a branch of industry to carbon neutrality; for example IATA Carbon Offset Programme of the aviation industry is a voluntary Carbon offset programme for 30 IATA member airlines. The programme is integrated into their web0sales engines or through a third party offset provider. The other example of sector initiative is the Tourism Industry Carbon Offset Initiative (TICOS). It aims to stimulate the collective action of the holiday supply chain – tour operators and travel agents selling holidays that include air or other forms of travel.
- **Company programmes**; examples of initiatives at company level include; NatureAir which claims to be the first carbon neutral airline since 2004; SriLankan Airlines which has introduced a voluntary carbon offset programme what wants to inspire every passenger to make a greener choice when crossing oceans; tour operators line GreenHotelWorld which offsets the carbon emissions of all overnight stays of its travelers or TUI Travel agency which offset 1.2 m tonnes of carbon through investing in clean energy projects over the last 5 years; Hilton Worldwide at no additional cost to customers measures carbon generated by events and meetings and offsets these through the purchase of carbon credits.

An overview of examples of carbon offset schemes is presented in Annex 4.

Observations relevant for the Fund establishment

Analyses of the country policies towards supporting carbon neutral tourism show that many governments and tourism organisations favour **reducing the emissions from tourism in line with the reductions required of other sectors**. Lack of specific binding emission targets or mitigation policies formulated specifically for tourism means that overall country climate policies play a significant role in achieving decarbonisation of tourism systems.

One of the most efficient ways of initiating change toward low carbon tourism is by **raising the costs of energy and emissions** through taxes or tradable permits.

Many countries designed programmes providing financial assistance to specific measures supporting the shift to low carbon economy e.g. on energy efficiency or renewable energy. It is important to note that such programmes are accompanied by a **mix of policy tools** and, together with the programme, constitute a comprehensive and consistent response.

The experience shows that even in the OECD countries, there is a low awareness of the tourism sector on climate change mitigation and adaptation needs. Examples of projects such Nearly Zero Energy Hotels or Renewable Energy for Tourism Accommodation Buildings can provide an important source of knowledge for the Fund management on best practices and lessons learnt throughout Europe and provide relevant examples to the tourism industry representatives.

Recent **developments of the EU policy** clearly indicate that Montenegro on its way of gradual transposition of the EU acquis will face the challenge of implementing such Directives like Directive on the energy performance of buildings or the Energy Efficiency Directive. These Directives set the

requirements which have direct impact on the tourism sector, especially hotels and other accommodation facilities. The Fund management need to take into account the upcoming challenges of the EU acquis implementation and provide an adequate response to the affected stakeholders by providing targeted financial means.

Environmental Funds have played a useful role in financing environmental improvements in several Central and Eastern Europe. Analysis of the Funds revealed that none of the Funds was focusing its assistance only tourism sector. The first ever support programme solely for the tourism sector has been launched in Croatia only in 2015. Nevertheless, the experiences of the Environmental Funds broadcast a number of practices which can provide a useful guidance for the Fund management such as; establishing the Fund by the possibly highest legal act; designing the Fund as an element of the national environmental financing system; need for flexibility in using a variety of forms of assistance; gaining institutional capacity to become a partner for EU Funds implementation; linking the Fund activities to the EU Accession priorities; taking advantage of emissions trading system; or designing creative financing scheme in partnerships with commercial banks.

The review of the **Climate Funds** indicates that they are a useful tool mainly for the developing countries as a response to the challenge of coordinating increased flows of climate finance from developed countries. Climate Funds can provide a country-driven system that can support implementation of climate change objectives. As the analysis of the sources of revenues showed, major flows of bilateral assistance on climate finance are unlikely, the experiences of climate funds on supporting climate mitigation and adaptation projects can provide to the Fund management relevant lessons learnt.

The experience of **carbon offset** schemes shows that they can stimulate development of carbon reduction projects in a number of sectors. The tourism industry is usually using the schemes as a marketing tool for "green positioning" of the industry and increasing its competitiveness through providing an offer to the eco-conscious tourists. There are several voluntary carbon-offsetting examples that can be used as a reference in Montenegro's carbon neutral initiative. Such initiatives can be established on a country level, sector programme or a company level.

2.4 Overview of the tourism sector in Montenegro

2.4.1 Tourism as contributor to GHG emissions

Tourism, according to UNWTO definition refers to "the activities of persons travelling to and staying in places outside their usual environment for note more than one consecutive year for leisure, business or other purposes not related to the exercise of an activity remunerated from within the place visited".

It had been acknowledged that tourism activities increased rapidly over the past 60 year, from 1950 to 2005, international arrivals grown by 6.5% per year, from an estimated 25 million in 1950 to 806 million in 2005. Domestic tourism has shown an even greater increase. UNWTO projects that the growth will continue with arrivals reaching 1.6 billion up to 2020. It had been estimated that in 2008,

tourism receipts contributed USD 944 billion to the world economy, corresponding to an estimated 9.6% of global Gross Domestic Product (GDP) and tourism accounted for 7.9% of worldwide employment .

The contributions of tourism to GHG emissions had been estimated in the UNWTO-UNEP-WMO study. The study notes that the contributions to the GHG emissions can be calculated for the three main sub-sectors: transport to and from the destination; accommodation, and tourism activities. Together, their contribution to global anthropogenic CO2 emissions has been quantified at 4.95% in 2005. The following table shows that transport accounts for the largest share of the emissions – aviation for 40% and cars for 32%. Accommodation is the second largest sub-sector in terms of its CO2 footprint, accounting for 21% of the total.

Sub-sectors	CO2 (Mt)	% (2005)
Air transport	515	40%
Car transport	420	32%
Other transport	45	3%
Accommodation	275	21%
Tourism activities	48	4%
Total	1304	100%
Total World (IPPC 2007b)[19]	26400	
Tourism contribution	5%	

Source: UNWTO-UNEP-WMO, 2008

The predictions for the sector growth show that CO2 emission from tourism might grow rapidly in the coming years. Based on the business-as-usual scenario for 2035 the emissions will increase by 135% by 2035, compared to 2005 level, to reach 3 059 Mt CO2. It can be concluded that if travel and tourism remain on a business-as-usual pathway, they will become important sources of GHG emissions in the medium-term future.

The growth in GHG emissions from tourism would be contradictory to emission reduction needs as outlined by the IPCC and the existing climate policy objectives of the international community.

On the other hand the climate change will have impacts on tourism. The main impact categories include[20]:

- Direct climate impacts: these include changes in the length and quality of tourism seasons, as well as weather extremes leading to increased operative costs and business risks
- Indirect climate change impacts; these include changes in fresh water availability and quality, the properties of lake and river systems (water levels and temperatures) coastal erosion, ocean acidification, or the spread of diseases;
- Impacts of mitigation policies on tourism mobility; these include higher transport costs as well as growing environmental awareness of the environmental consequences of travel.
- Socio-economic impacts; potential socio-economic disruptions due to climate change.

[19] IPPC 2007b
[20] UNWTO-UNEP-WMO 2008

As tourism generally depends on access to the quality marine and fresh water, water stress might constrain the use of these resources. By 2020 it is estimated[21] that tourism-related water use is likely to increase with international tourism numbers and higher hotel standards.

2.4.2 General overview of the sector

Montenegro tourism activities are dominant at the coastal areas, although efforts are made to extend the tourism offer to mountain areas. The main features of the tourism sector[22] are:

- In recent years the biggest growth was observed in coastal cities, like Budva in which new hotels and private accommodations facilities were constructed in largely uncontrolled manner. In other coastal areas, the speed of construction was slower, but the development of new large luxury resorts has started around Kotor bay (e.g. Porto Montenegro, Lustica);
- In relation to accommodation, non-collective accommodation i.e. private rooms, apartments and houses are the preferred choice of visitors. A market share of private accommodation vs hotels is estimated at 66%.
- The total CO2 emissions of Montenegro are estimated[23] in 2011 at 2,50 Mtons of CO2. There are only preliminary estimations done for the contribution of the tourism sector at 3-5% of total national GHG emissions.
- Similarly to global trends, the overall carbon footprint of the travellers visiting Montenegro primarily depends on their point of departure and their chosen transportation mode to arrive and return from Montenegro. For the majority of north and non-European visitors and those coming over from larger distances from Russia and Ukraine, air transport is likely to remain as the most practical transport mode. From the neighbouring countries, the visitors normally travel by car, to some extent also by using the available accompanied car transport service or railway Belgrade- Podgorica – Bar.
- The current speed of railway is very low and constitutes major barrier for the visitors to choose this mean of transport.
- Considering the growth in travels by sea with large cruise ships and motor yachts, which typically presents the most carbon intensive travel mode per passenger km, any carbon mitigation measures or carbon offset schemes could yield good reduction results for this transport mode.
- In relation to the energy use, electricity was found out to be the main energy source for the majority of hotels, complemented by fuel oil and, in smaller quantities coal, LPG, fuel wood and solar thermal. For water heating, the majority of hotels use a central heating system using heavy fuel oil, then electricity and then other fuels.
- Water heating typically accounts for about 15% of all energy consumption of tourism accommodation services. Other main energy consumers are air conditioning and ventilation, space heating, lighting and catering services.
- For private accommodation facilities the use of electricity for water heating is predominant.
- The overall electric power supply in Montenegro is mainly based on hydro (29%), coal fired thermal power (34%) and net import and exchange with Serbia (37%). Apart from hydro power and the traditional use of fuel wood by the households for heating and cooking, the

[21] Ad idem
[22] According to the Towards Carbon Neutral Tourism in Montenegro project document
[23] IEA Key World Energy Statistics 2013

use of other renewable energy sources has not really taken off in Montenegro. In order to encourage investments in renewable energy a new feed-in tariff for electricity purchased from renewable energy sources was introduced (see chapter 2.3).

- At the moment there is no reliable nation – wide data on energy saving potential, including tourism sector.

2.4.3 Tourism sector commitment to low carbon economy

The recent Survey on Low Carbon Tourism in Montenegro[24] aimed at providing information on the level of awareness, general knowledge and level of development and preferences in tourism industry regarding low carbon tourism development.

Preliminary results of the survey (available in August 2015) revealed that 49% of tourism business entities are investing in energy efficiency measures and further 8% is planning to invest in the future. The most common form of investment is investment in new insulation (e.g. doors, windows, walls) and in alternative energy sources. The majority of businesses invested up to 10,000 euros in the energy efficiency improvements. In relation to the renewable energy sources 65% of businesses have never invested and 22% have some experience with this type of energy. The most common form of investment was in solar energy followed by a small number of investments in hydropower plants and in wind energy.

In relation to financing green projects, 67% of businesses believe that the municipality do not have enough financial resources for financing such projects due to economic crisis or other priorities. At the same time 33% of companies considered that municipalities have enough financial resources due to budget, high taxes, fees and other income.

With respect to sustainable transportation, half of businesses believe that the choice of fuel is not important in the choice of destination for tourists. Most of the businesses use diesel gasoline and half of the businesses are willing to invest in their vehicles to switch on ecological and alternative fuels and are willing to invest on average 1,530 euros annually.

Half of the businesses believe that eco-tourism will be important in the future. Tourism industry sees eco-tourisms as belonging mainly to the age group 35-50 years old with the annual income higher than 10,000 euros and that they choose Montenegro as a destination mainly because of its natural values.

The views are divided when it comes to the potential long term benefits of investing in low carbon tourism; 40% of businesses do not believe that such investment will attract specific tourism markets and generate income in the long term. Tourism businesses were also asked about an idea of establishing a National Climate Change Tourism Fund and 60% of they agreed that it should be established, on the other hand 9% of them disagree with the idea of its establishment.

[24] The survey was prepared by E3 for UNDP in August 2015 under the project Towards Carbon Neutral Tourism in Montenegro. For the purpose of the Survey a representative three stage stratified sample of national enterprises was created considering regional and municipal division. Survey was conducted among 100 companies which are operating in the tourism and travel sector within seven targeted municipalities (Budva, Kotor, Tivat, Ulcinj, Herceg Novi, Bar and Cetinje) in Montenegro.

The survey also revealed that 84% of businesses had never calculated their carbon foot print and only 2% of them have experience with such calculations. Also the majority of businesses (68%) do not apply any environmental standardization scheme.

Additionally, the discussions[25] with the representatives of the tourism industry indicated that tourism industry is interested in new trends such as carbon neutrality and there are some examples already in the country which could be promoted. The man problem identified is in the lack of knowledge on measures and costs and benefits associated with improvements. There is also a financing gap as not many commercial banks are interested in providing support to carbon reduction projects.

Observations relevant for the Fund establishment

Analysis of the recent studies point out that the most significant contributions of tourism to GHG emissions are from the transport sector (more than 70%); and accommodation sector (21%). It indicates the direction for the Fund, in order to achieve the biggest impact, to provide support for example to **sustainable** transport and more **energy efficient accommodation** facilities development.

The international studies and reports show that although tourism is as yet only a minor contributor to climate change, given strong growth trends in tourism, the sector is likely to become one of the major sources of GHG emissions in the future. The tourism will be also affected both directly and indirectly by climate change.

Estimates of the contribution of Montenegro's tourism sector to GHG emissions are at the 3**-5% of total national GHG emissions.** There is no data and information available on energy saving potential for the tourism sector.

Results of the survey on Low Carbon Tourism in Montenegro show that there is a **very low awareness about carbon reduction measures and options for the tourism sector** and that there is lack of knowledge about costs and benefits of carbon reduction measures for the sector. This situation requires that the Fund has **to pay special attention to capacity building and awareness rising** of the tourism stakeholders in order to achieve success with its programmes and financial support. The first and priority issue to raise awareness on is to present to the tourism stakeholders why they should invest in carbon reduction improvements and what are **the costs and benefits relevant for the situation in Montenegro**. Supporting pilot cases in selected hotels could assist in showcasing by the Fund examples of measures based in the local environment.

[25] Meetings conducted during the project missions (July and September 2015)

2.5 Overview of climate and tourism policies and finance instruments in Montenegro

2.5.1 Climate and tourism policies and strategies

In 2006 Montenegro ratified the United Nations Framework Convention on Climate Change (UNFCCC) and in 2007 the Kyoto Protocol. Montenegro is non-Annex I country and as such has only general obligations, such as reporting to UNFCCC. In order to receive technical and economic assistance Montenegro has to prepare national reports with GHG inventories, develop strategies for climate change mitigation and adaptation, cooperate in research and technology transfer and improve the education and awareness of the public. The First Initial National Communication to the UNFCCC was submitted in 2010 and the Second National Communication in May 2015. The Second National Communication notes tourism as one of the main sources of revenue and economic development being primarily based on the further development of this economic branch.

Legal background

In relation to legal background, there is no special law devoted to climate change. The 2008 **Law on Environment**[26] includes mitigation of climate change as a target. The Law also includes provisions for developing national climate change mitigation plans which consist of a national GHG inventory, analysis and related measures. Up to know such plans have not yet been adopted.

Box 6: Climate Impacts of Economy

- Meteorological observations in Montenegro show a clear evidence of changing climatic parameters
- There is no comprehensive model on economic impacts from climate change in Montenegro. The Project "Technology Needs Assessment for Climate Change Mitigation and Adaptation for Montenegro – National Strategy and Action Plan" (TNA) identifies the most costly areas for adaptation such as health, water, agriculture, coastal area and forestry sector.
- The first results of the study under preparation of the SNC show that climate change would bring mainly negative economic impacts for the near future up to 2030 and strongly negative impacts for the end of the century.
- In relation to the tourism sector, there are contradictory results from the available models. From one side the higher temperatures in close future might positive effects, but in the longer term, all models predict considerable economic losses as tourism will shift to cooler places. At present tourism only suffers from less snow in winter sport areas.

Based on the Third Environmental Performance Review of Montenegro (2015)

Other related sectors with climate change provisions include:

- **Air Quality**: The **Law on Air Protection**[27] specifies provisions concerning a national strategy and plans regarding air quality which also includes measures to reduce GHG emissions. Related bylaws include: The 2014 Rulebook on GHG inventory and exchange of information[28] regulates GHG inventory and the Regulation[29] on the national list of environmental indicators includes indicators on climate change such as consumption of the substances that depleted ozone layer, trend of the emission of GHG emission, projection of GHG emission, annual air temperature and annual precipitation.

[26] OG 48/08, 40/10, 40/11, 27/14
[27] OG 25/10, 40/11
[28] OG 39/14
[29] 2013 OG 19/13

Energy sector:

- The **Law on Energy**[30] **and Law on Energy Efficiency**[31] put an obligation on local self-governments, public administration, grid operators, energy suppliers, suppliers and distributors of energy-using appliances and big energy users to adopt various measures to improve energy efficiency related to energy end-use, energy efficiency, energy performance of buildings, eco-design of products and labelling of household appliances. In addition, local self-governments must develop and adopt three-year programmes and one-year plans for energy efficiency improvements and report on them.

In addition, Montenegro adopted several Rulebooks relevant for climate change mitigation actions;

- Regulation on the **tariff system** for the establishment of preferential prices of electricity from renewable energy sources and efficient cogeneration[32]
- The Rulebook on minimum **energy efficiency requirements of buildings**[33]. It introduced efficiency standards for new buildings or on the major rehabilitation of buildings. According to the Rulebook 30% of the hot water has to be delivered by solar energy. It also introduced energy efficiency certificates for buildings.

Strategic framework

Environment and climate change strategies

The **National Strategy on Climate Change** by 2030 has been adopted in September 2015. The Strategy recommends the creation of **a Montenegro Climate Fund**, which is intended to become the key vehicle for mobilising and allocating resources from international development partners towards climate change activities in Montenegro, and which could also be used for allocating domestic public resources towards climate change actions[34].

The **National Strategy for Sustainable Development** (2007) and accompanying Action Plan identifies a need to develop a plan to reduce emissions and a programme for mitigating the consequences. The main goals of the Strategy are:

- Contribute to economic development by enhancing Mediterranean assets;
- Reduce social disparities by implementing Millennium Development Goals and strengthen cultural identities
- Change unsustainable production and consumption patterns and ensure sustainable management of natural resources
- Improve governance at the local, national and regional level.

One of seven priority areas of the Strategy is **sustainable tourism** as a leading sector of the economy.

In relation to tourism, the NSDS aims at;

[30] OG 28/10, 6/13
[31] OG 29/10
[32] OG 52/11, 28/14
[33] OG 23/13
[34] Climate Change Strategy, October 2015

- Diversification of tourist offer (development of village, agro-, eco-, mountain, cultural, sports and other forms of tourism, especially in the northern part of the country in support to the extension of tourism season and attraction of guests with the higher purchasing power);
- Integration of sustainability criteria in endorsing tourism development projects (i.e. for the adoption and assessment of plans), especially for the coastal and winter mountain tourism.

Further, the Action Plan of the Strategy foresees provision of funds and credit lines for implementation of projects to diversify the tourists offer.

A working group of the National Council for Sustainable Development and Climate Change is working on the development of a revised NSSD for the period 2014 – 2020. The revised strategy is envisaged to be more horizontal, taking into account the outcomes of Rio+20 and Europe 2020 strategies and it is planned to have clear targets and indicators. It is planned to be adopted by the end of 2015.

Box 7: Main problems and limiting factors identified regarding the development of sustainable tourism (NSDS)

- Unbalanced distribution of accommodation facilities (96% of the accommodation facilities are located on the coast)
- Strong investment pressure directed towards the coast and the most attractive locations;
- Lack of well trained and skilled staff, especially when it comes to development of complementary forms of tourism
- Unfavourable age and education structure in the rural areas
- Short season
- Major fluctuations in the number of people staying in the coastal region during the high and low season, which has a negative effect on the quality of life of local population.

Based on www.nfosigw.gov.pl

The **Action Plan of the National Strategy for Air Quality Management** for 2013 -2016 includes measures for the reduction of GHG emissions and the obligation to report annually on the implementation of the Plan. The main recommendations, not specific for tourism sector, include:

- Improvements in the energy sector;
- Introduction of economic instruments such as an increase in electricity prices, taxes on energy/coal, and a fuel tax
- Abolition or reduction of subsidies on fossil fuels
- Inclusion of climate change in the broader process of planning for sustainable development and sectoral development plans, zoning, planning and designing of buildings and settlements
- Inclusion of climate change in the curriculum at all levels of education
- Intensifying public awareness-raising programmes

As noted by the Environmental Performance review report, climate change aspects have not yet been integrated into sectoral policies except for the forestry sector, and partially the energy sector.

Forest Strategy

The Forests Strategy has a multiple role in the context of climate changes, which endanger forest ecosystems by climatic stress, higher risk of fires and other calamities. According to the Strategy the main recommendations and tasks related to the clime change in forest sector include:

- Asses to what extent forest at risk are caused by climate change
- Include parameters related to the climate change in forests inventory
- Asses potential or accumulating CO2 from forests and opportunities to international ''carbon credit'' financing

- Include goals of fighting climate change in administration and management plans

Energy sector strategies

The Energy Development Strategy of Montenegro until 2025 mentions growing CO2 emissions, mainly caused by construction of new TPPs. According to the 2011 Energy Policy of Montenegro until 2030 approaches to mitigation are based on development of a higher share of renewable energy and energy efficiency improvements. Also the 2012 Green Book Energy Development Strategy until 2030 reflects on the growth of GHG emissions as a problem, but does not analyse possible solutions.

National Renewable Energy Action Plan (2014) highlights the country's high potential for renewable energy (hydro, solar, wind and biomass).

According to the Energy Community strategies, Montenegro has the **binding national target of a 33% share of renewable energy sources** in gross final energy consumption by 2020.

The Energy Development Strategy plans installed new capacities of renewable energy in 2030 as: 120,9 MW of small hydropower (2015 -2025), 189,7 MW of wind energy (2017 – 2030), 10 MW of the incineration of mixed solid waste, 0,4 – 39 MW of other forms of biomass, 1.3 – 31,5 MW of photovoltaic power plants (2015 – 2030).

In relation to energy efficiency, according to the 2011 Energy Policy of Montenegro until 2030 notes that the final energy consumption must be **reduced by 9 % by 2018** compared with average consumption in the period 2002 – 2006 without consideration of the energy consumption of KAP[35].

The Energy Efficiency Strategy (2005) is implemented through the **National Energy Efficiency Action Plans**. The current (second) NEEAP for 2013 – 2015 described achievements and gaps from the previous plan where the main achievements are associated with implementation of promotional earmarked energy projects, mainly in the building sector and public awareness raising.

It is also important to note that at the local level, some municipalities e.g. Tivat and Bar, have adopted three-year programmes for energy efficiency and other municipalities are preparing similar documents.

In relation to the transport sector, the Transport Development Strategy does not include climate change considerations.

Tourism sector strategies

The **Tourism Development Strategy** to 2020 recognised climate change as one of the threats for winter tourism because of declining snow reliability. It also noted that climate change should be considered in future

Box 8: Support to the tourism development

In recent years Montenegro has undertaken various fiscal policy actions to design and implement measures which will encourage investments in tourism such as development of planning documents for non-urbanised land; special fiscal incentives for construction of 4 and 5* hotels;
In June 2015 a new package of fiscal measures was adopted e.g. reducing VAT level, relief of obligation to pay property tax for 1 years etc.
In addition the Law on Tourism defines development of the Incentive Measures Programme (see chapter 2.5.4.
Details of the existing fiscal measures are presented in Annex 5

[35] KAP – aluminium plant

planning.

Compliance with the EU climate change acquis

As part of the EU accession process, Montenegro is also working toward transposition and implementation of the EU climate change acquis. The latest, 2014 EU Progress Report noted that in the area of climate change, there is a need for a comprehensive national climate policy and a climate change strategy in line with the expected EU 2030 policy framework on climate and energy. It also stresses the need to fully integrate climate considerations into all relevant sectoral policies and strategies. It notes the Montenegro hasn't yet put forward a mitigation commitment by 2020 under the Copenhagen Accord. The intended nationally determined contribution to the 2015 Climate Agreement has been finalised in the second part of 2015.

In relation to aligning with the climate acquis, legislative alignment and implementation is advanced regarding the Regulations on Fluorinated Gases and Ozone Depleting Substances and the Fuel Quality Directive. In all the other fields, transposition of the climate acquis is at a very early stage. Therefore, Montenegro needs to make major efforts to ensure alignment with and implementation of the acquis, in particular as regards the monitoring mechanism, the EU Effort Sharing Decision, the EU ETS and EU ETS aviation, fuel quality, emission standards for cars and vans and geological storage.

In addition, significant efforts are required to strengthen the country's **monitoring, reporting and verification capacity**. The report notes that creation of the National Council for Sustainable Development and Climate Change is a positive development in inter-institutional coordination and cooperation. The administrative capacities for climate change need to be significantly strengthened in order to address the need for enhanced climate action in a sustainable manner, beyond the project-by-project basis.

2.5.2 Institutional framework

Institutional framework related to climate change policies in Montenegro consists of the following institutions;

Institution	Responsibility
The Ministry of Sustainable Development and Tourism	In charge of coordination of climate change mitigation and adaptation. Responsible for the development of policies and strategies, including legislative alignment and supervision, monitoring and reporting, as well as for preparing harmonisation with the EU acquis on climate change. The MoSDT is responsible for the submission of National Communications to UNFCCC. The MoSDT is also the Designated National Authority (DNA) Secretariat as regards the Clean Development Mechanism (CDM).
The Environmental Protection Agency	Prepares GHG inventories. EPA is also the technical operational body for CDM operational procedures including technical analysis and the review of project documentation. EPA is responsible for making information available to the public and to appropriate environmental organizations
Hydrometeorological and Seismological Service	Monitors and assesses climate, analyses potential impacts of climate change on different sectors and ecosystems and is modelling climate scenarios.

National Council for Sustainable Development and Climate Change	The responsibilities of the Council have been extended in 2013 by adding climate change issues to elevate the importance of climate change and to meet the EU's requirement for a multi-stakeholder body on climate change.
The Ministry of Transport, Maritime and Telecommunication the Ministry of Agriculture and Rural Development and the Ministry of economy	They are members of the National Council and working group on climate change.
The Inspection Directorate - Environmental inspection	In charge of enforcement of legislation

Montenegro is also part of the Energy Community, which was established between the EU and third countries to extend the EU internal market to Southeast Europe and beyond, with the objective to support energy efficiency and renewable energy.

2.5.3 Economic instruments in use

The Law on Environment states the importance of the polluter pay principles and defines a number of environmental policy instruments. The legal and natural persons have to pay compensation for environmental pollution, based on the polluter pays principle. The pollution charges should be paid for; discharge of air pollutants; use of fossil fuels and lubricating oil, import of substances that deplete the ozone layer, generation and disposal of hazardous waste and use of motor vehicles, aircraft and vessels.

According to the Law there is a possibility to provide economic incentives, such as subsidies and tax incentives for enterprises that use or are engaged in trading of environmentally friendly technologies and products and there is also a possibility for the use of eco-labelling for environmentally friendly products. To date these possibilities have not been utilised.

The table below presents an overview of the pollution charges in place:

Pollution charge type	Description
Air emission charges from stationary sources	To be paid for a range of pollutants. Mainly paid by industry; thermal power plant, aluminium plant Charge rates applied are, on average, low and unlikely to create incentives for polluters to change their environmental behaviour.
Charges for import of ozone-depleting substances	To be paid by legal entities that import substances. Licence has to be issued for the import. There are only two companies involved in this activity
Payment for generation and disposal of toxic waste	Applied to enterprises per tonne of hazardous waste generated. As there are no facilities for utilisation, the majority of waste is stored at the premises of the companies or exported. There is an additional charge for waste stored at the premises

Water pollution charges	Legal and natural persons who discharge wastewater into water recipients, manufacture or import fertilisers, chemical plant protection products or phosphate based detergents. Water pollution charges are administrated by the Water Directorate of the Ministry of Agriculture and Regional Development.
Natural resource use charges	Use of natural resources require a permit. It is given for the use such as water abstraction, mineral resource extraction and forest exploitation.
Charges for use of national protected areas	The main revenue comes from the tourism activities. Licences for sport fishing and commercial fishing.
Municipal waste management and water supply services	Delegated to the local self governments. Local self governments are legally responsible not only for provision of utility services, but also for regulating activities in the sector: setting tariffs for utility services.
Municipal waste management tariffs	Fees are levied in proportion to the size of occupied residential and commercial premises. Waste tariffs also depend on the kind of economic activity the legal entities are engaged in.
Charges for management of special waste	Applies to manufacturers, importers and distributors of products that generate special types of waste. The system is under development, and it is planned that revenues from fees will be earmarked (in a special account) for the co-financing of projects in the field of waste management as well as the costs of acquisition, collection and treatment of special waste.
Charges for use of road motor vehicles	These include an annual registration tax with different tax bases depending on the type of vehicle. For passenger cars and motorcycles, the tax base is the engine capacity; for buses it is the number of seats. Cargo vehicles are taxed depending on the load capacity. There are exemptions for neighbouring countries based on bilateral agreements.

Revenues from pollution charges

The table below presents the revenues from the charges in the responsibility of the Ministry of Sustainable Development and Tourism and does not include water charges (Ministry of Agriculture and Forestry) for which data is not available.

Pollution charge [in Euro]	2012	2013	2014
Air emissions	226,373	190,409	151,692
Import of ozone depleting substances	9,792	6,486	7,245
Toxic waste	289,627	149,692	51,269
Total	525,792	346,588	210,206

Source: Ministry of Sustainable Development and Tourism.

It can be seen that the revenues collected have a decreasing trend and were lower more than 50% in 2014 than in 2012.

In relation to the water pollution charges, the Environmental Performance review notes that in 2012 the total revenue from discharges of water pollutants was at the level of 2,518,000 euro.

According to the Law on Environment, there are certain activities that are not mandatory but can be initiated by local-self-government, such as introducing monitoring programmes on their territory or local taxes for the protection of environment in order to use collected revenues for the protection and improvement of the environment in a given territory. In this respect, the experience shows, that the municipalities were not yet successful with introduction of such local taxes. For example, the Constitutional Court declared invalid the decision of the municipality of Pljevlja on special fees for environmental improvement and protection. The Court recognised that although a legal possibility exists for local self-government units to introduce certain taxes/fees to secure funds for environmental protection, polluters cannot be double charged. According to the 2010 Law on Improvement of Business Environment, any fee for environmental improvements is a subject of prior approval of the Government. The Law on Environment is not precise on this issue and no secondary law clarifies it.

The Environmental Performance Review of Montenegro notes that there **has been increasing use of economic instruments for promoting environment protection and ensuring a more rational use of natural resources in recent years.** It also notes that there is **no evidence that pollution charges create significant, if any, incentives for polluters to change their behaviour towards the environment**.

Under the current legislation, the revenues from pollution charges were collected by the Ministry of Finance and transferred to the State budget. The draft new Law on Environment foresees the earmarking of the pollution charges to environmental projects (see next chapter).

2.5.4 Carbon reduction finance instruments

Up to now the environmental protection expenditures in Montenegro have been financed from the state budget, municipal budgets and international sources (loans and grants). The Law on Environment gives a possibility of financing environmental protection measures also from private sources through concession systems, public private partnerships and other instruments.

In relation to financing climate change instruments for the tourism sector, there are limited experiences with such initiatives. The initiatives were usually focusing on all sectors of economy without specific focus on the tourism sector. The main examples of such finance initiatives include:

- The Ministry of Economy manages a special account through which grants and loans from the donors and IFIs are being channelled. The portfolio of projects is around 50 mln euros. The assistance focuses on improvements in energy efficiency for public sector through renovations of public buildings, hospitals and banking sector. In the future the Ministry plans to continue support to the energy efficiency in public buildings such as schools, hospitals, social welfare buildings.
- Montesol project provides subsidies to interest rates for solar systems in the households. It is financed by the Italian bilateral assistance through UNDP.
- A project for private sector on supporting development of biomass systems and photo voltaic systems (project was financed by the Luxembourg development Agency and followed by a grant from Norway) is considered as a success. It was implemented by commercial

banks, selected through the public call. The banks were providing 3,500 euros loan (interest free) for 5 years for the installations of the PVs. According to the Ministry of Economy, the scheme was a great success and the Ministry plans to continue with similar support. The scheme was used mainly by small households and apartment accommodation.

- Municipality of Tivat is implementing a project on promoting biking in the city center. Also a car free waling promenade was constructed.
- Municipality of Cetinje implements a project on improving public lighting in the city center and energy efficiency improvements in the local hospital.
- Under the project Towards Low Carbon Neutral Tourism it is planned to provide grants to the carbon reduction projects proposed by the tourism sector.

National Investment and Development Fund (IDF) implements the programme for Tourism and Hospitality Support. It is aimed at development and growth of the existing micro, small and medium enterprises, providing the conditions for supporting new employment, enabling prolonged tourism season, increase hospitality capacities and to promote overall competitiveness of Montenegro as a tourist destination. IDF provides loans intended for investments in fixed assets e.g. buildings and intangible assets e.g products. IDF may finance up to 50% of the total investment value. IDF provides preferable loan conditions. Up to now IDF did not use any special conditions or requirements on the carbon reduction measures for assisted projects.

Box 9: EBRD regional facilities on sustainable energy

WEBSEFF: Western Balkans Sustainable Energy Facility is a financial facility under which EBRD provides credit lines to partner banks in the region to on-lend to businesses and municipalities wanting to invest in energy efficiency and small scale RE projects. WEBSEFF is part the EBRD Sustainable Energy Financing Facility family. WeBSEFF is part of the Regional Energy Efficiency Programme for the Western Balkans (REEPWB) REEPWB uses a combination of financing instruments (such as WeBSEFF), technical assistance and policy support to create a sustainable market for energy efficiency in the region. The programme supports energy efficiency for both private and public sector.
WeBSEDFF: the Western Balkans Sustainable Energy Direct Financing Facility is a direct investment facility under which 50 million EUR of loan funds have been allocated by the EBRD under the REEP. The facility is open to loan small and medium enterprises or project developers to implement: Industrial energy efficiency projects, RE projects and ESCO projects in public sector through ESCO contracts.
Under the facility the **EBRD** provides direct loans from 2 – 6 mln euro for eligible projects. Under this scheme the borrower can also obtain: technical consultancy services free of charge, on support of preparation of sustainable energy projects and incentive payments based on the estimated reduction of CO2 emissions resulting from píroject implementation.

Indirect finance instruments

There are limited examples of indirect measures introduced for stimulating climate friendly behaviour, for example the municipality of Budva and Podgorica have special local tax relief for houses installing solar systems. Municipaly of Tivat is also preparing a similar tax relief.

International sources of finance

Discussions with the representatives of the international sources of finance[36] showed that there are **limited experiences** on support given to the tourism sector. The European Bank for Reconstruction and Development (EBRD) provides assistance to energy efficiency projects in the Western Balkan region. Up to now there were no energy efficiency projects under implementation in Montenegro

[36] In the frame of the project mission the meeting with EBRD and The European Commission Delegation were conducted.

mainly due to low interest from commercial banks for such credit lines. Such schemes are working in other countries of the region e.g. in Serbia and Bosnia and Herzegovina.

Currently EBRD supports refurbishment of two hotels in Montenegro. Both projects include energy efficiency requirements. EBRD provides assistance to mainly large projects and can be involved in co-financing schemes with other sources of finance. EBRD does not provide direct funds to the State.

In the case of the European Commission, the final financing instrument for the country is IPA II (Instrument for pre Accession). In the financial framework 2014 -2020 energy efficiency can be seen as a way to proceed with support to the tourism sector. Tourism is not seen as a sector for the EU and therefore there are no specific objectives or legislation in place. The EU has only experience with supporting the NGOs in helping to further develop tourism services in the country.

Commercial banks

As shown through the experience of environmental funds, the commercial banks can be a good partner in financing carbon reduction projects. For example Hipotekarna Bank in Montenegro[37] is using credit lines from EBRD and EIB for the overall SMEs development. Tourism sector is using the assistance for preparatory work before the tourist season starts. The Bank does not have experiences working on carbon reduction measures. There if a potential for cooperation on technical assistance, as tourism industry needs training and capacity building on why and how carbon reduction measures could help them to save money. It is the first step to discussing potential cooperation with the Fund.

Planned finance instruments

Eco-Fund

Currently, there is an ongoing procedure for establishment of the **Eco-Fund** which is meant to become the main financial vehicle to finance environmental improvements.

The Environment law[38] prescribed that financial means for the preparation, implementation, and development of programs, projects and other activities concerning preservation, sustainable usage, protection and improvement of the environment, as well as for the renewable energy resources exploitation, shall be ensured in the Environmental fund. In addition, the establishment of so called Eco-fund was envisaged from the adoption of the Strategy of Sustainable Development of Montenegro. However, this mechanism for intended collection and allocation of resources for funding environment related projects and programs has not been established yet.

A new draft law on the environment, adopted by the Government, currently under Parliamentary procedure, again provides for the establishment of Eco fund (art. 76). It prescribes that the Fund shall be established by the Government as a legal entity. The revenues of the Fund shall be generated from; state budget, eco-charges, loans and donations, instruments, programmes and funds of the European Union, United Nations and other international organisations, foreign investments intended for the environmental protection and other sources.

[37] In the frame of the project only meeting with Hipotekarna Bank representative was organised.
[38] OG, no. 48/08

The Fund's finances shall be used to: finance the preparation, implementation and development of programs, projects and related activities aimed at conservation, sustainable use, protection and improvement of the environment, energy efficiency and use of renewable resources and energy, the implementation of the objectives and principles of environmental protection, to achieve an integrated and holistic preservation of environmental quality, conservation of biological, geological and landscape diversity and rational use of natural resources and energy as well as the basic conditions for sustainable development, and the rights of citizens to a healthy environment.

The mentioned draft law is in the parliamentary procedure and its adoption is expected by the end of 2015.

Climate Fund

Recently adopted National Strategy on Climate Change recommends the establishment of a Montenegro Climate Fund. It is intended to become the key vehicle for mobilising and allocating resources from international development partners towards climate change activities. The strategy notes that the Fund could also use for allocating domestic public resources towards climate change actions. The Strategy does not provide further details on the feasibility of the recommendation e.g. potential interest of development partners nor on the sources of domestic revenues.

Incentive Measure Programme

The Law on Tourism foresees the establishment of the Incentive Measure Programme for the tourism sector. It is foreseen that the funds for financing the projects within the Programme shall be provided from the funds allocated by the budget of Montenegro for the needs of Ministry. In June 2015 the Government adopted the Programme for incentives in the tourism sector 2015/2016. The planned areas of support include:

- Measure I – enrichment of improvement of the tourism offer (60,000 EUR)
- Measure II – Improvement of the offer in the field of cultural tourism (30,000 EUR)
- Measure III - Organisation of events (for projects whose total value exceeds EUR 30,000 - the total available funding is EUR 100 000; for projects with a total value of up to EUR 30,000 - the total available funds are EUR 40,000

Currently, the measures do not include any carbon reduction dimensions. It has to be also noted that the proposed package of incentives does not seem to be grounded on the national and European regulations governing state aid. The proposed package of fiscal incentives could be redesigned to be part of a horizontal aid scheme in support of R&D, innovation, regional development (e.g. public tourism related infrastructure) and training to increase the capacity of public agencies to improve the local support local enterprises to invest (e.g. in innovation for improved tourism products, linkages and new accommodation facilities) and generation of new jobs.

Observations relevant for the Fund establishment

Montenegro as a non-Annex 1 country is classified as developing country (according to IMF). As such it has only general obligations such as reporting to UNFCCC. According to the Convention the Annex II Partied (developed industrialised countries) are required to provide financial resources to enable developing countries to undertake emissions reduction activities. The Convention gives a special

consideration to 49 Parties grouped as least developed countries (LDCs) and the financial assistance from the Annex II Parties is mainly directed to the LDCs. From this perspective **there is low probability that bilateral donor countries (mainly Annex II) will focus their financial assistance on Montenegro and could therefore provide potential sources of revenues for the Fund.**

The legal framework for climate change is under development and at the early stage of transposition of the EU climate acquis. The most advanced legal requirements relevant for the tourism sector can be found in the field of energy efficiency with the newly introduced energy efficiency requirements for new buildings.

Current strategic framework provides limited number of objectives leading towards the carbon neutrality of the tourism sector and thus provides a limited potential for justification of the creation of the Fund. There are no specific objectives for the tourism sector. The set objectives are the most developed for the energy sector with the binding national target (Energy Community) of 33% share of renewable energy sources and specific energy efficiency targets e.g. according to the Energy Policy until 2030.

The institutional framework for climate change and tourism is established and lead by the Ministry of Sustainable Development and Tourism. Recently the responsibilities of the National Council for Sustainable Development and Climate Change were extended by adding climate change issues.

The system of pollution charges is operational. The level of revenues from the pollution charges was on average around 300,000 euros per year. Revenues from water pollution charges were at the level of 2,5 mln euros per year. Under the current legislation the revenues from the charges are transferred to the State budget and not specifically used for environmental improvements.

The review of **available financial instruments for carbon reduction projects** in the tourism sector shows that there are **very limited experiences** with providing such assistance. Available schemes on the national level were mainly providing assistance to energy efficiency improvements to the public sector or where open for all sectors of the economy without specific focus on tourism. Some of the existing schemes e.g. IDF although focus on tourism sector, do not include any carbon reduction requirements. The experience of the international financing institution shows that although there are regional facilities set up to assist in energy efficiency and renewable energy development, so far, the interest of the commercial banks to participate in the on-lending schemes was very limited. Commercial banks have some experiences with tourism sector, assisting them mainly with bridging funds before the tourism season.

There are **three new currently planned financial schemes** under development; Eco-Fund, Climate Fund and Incentive Measure Programme. If adopted, they can become a basis for placement of the programme for assistance on carbon reduction for the tourism sector. These options are further presented in chapter 3.2.

2.6 Other relevant aspects to be considered

When designing the Fund, a situation with cooperation of the Fund with private sector stakeholders and other parties has to be taken into account. This chapter highlights main aspects to be taken into account.

State Aid rules

State Aid rules set the conditions under which assistance to the private sector can be given from the public sources. Considering that the main stakeholders of the tourism sector below to the private sector operators it is important to review the possibilities of providing assistance to this sector. In Montenegro the main procedural principles of State aid control are stipulated in the Law on State Aid Control[39], the Law on General Administrative Procedure, the Law on Administrative Dispute and the Law on Courts. The Law on state aid control regulates the conditions and the procedure for granting and controlling the use of state aid, by applying the principles of market economy, preservation of competition and ensuring transparency in fulfilling the obligations assumed under ratified international treaties. In the process of EU Accession, the Law on State Aid Control and other relevant laws , especially the Decree on more detailed criteria, conditions manner for granting state aid[40] were amended in 2014 and direct implementation of the relevant EU rules was introduced.

In August 2014, the Ministry of finance adopted the Rulebook on the list of state aid rules [41] and its amendments[42] which provided for direct implementation of, inter alia, the EC Guidelines on environmental protection and energy state aid for the period 1 July 2014–31 December 2020[43].

The Guidelines set out 15 areas that the Commission believes merit support whether **in the form of investment aid, operating aid or both.** The areas and the appropriate types of aid are set out below:

Investment aid	Operating aid	Investment and operating aid
• early adaptation to future EU standards; • environmental studies; • district heating and cooling; • resource efficiency and waste management; • remediation of contaminated sites; • aid for CO2 capture, transport and storage (CCS); • energy infrastructure;	in the form of tradable permits; • in the form of reductions in or exemptions from environmental taxes; • in the form of reductions in or exemptions from levies imposed on energy consumers intended to fund electricity from renewable sources;	• renewable energy; • energy efficiency; • cogeneration; • generation adequacy measures (these can include capacity mechanisms); and • aid for exceeding EU Standards for environmental protection.

The Guidelines set specific conditions for granting aid on energy from renewable sources and aid for energy infrastructure and criteria for using specific technologies. These criteria are described in more detail in Annex 6.

Public private partnerships

[39] The Law on State Aid was adopted in December 2007, replaced by a new Law in November 209 and amended on 17 November 2011.
[40] Official Gazette of Montenegro, no. 27/10, 34/11 i 16/14
[41] Official Gazette of Montenegro, no. 35/14
[42] Official Gazette of Montenegro, no.2.15
[43] 52014XC0628 (01), SL C 200, 28.6.2014, pages 1–55

Public-private partnership in Montenegro is regulated by Law on participation of private sector in the delivery of public services[44] and the Law on concessions[45]. The law is applicable to all public institutions and it covers the exercise of public services in relation to leasing and management contracts, including build-operate-transfer arrangement. According to the law, the private investor has the duty to transfer the ownership over a certain site, after having completed its construction and used it for a pre-determined number of years. The conclusion of a PPP is possible only on grounds of a public call made by a public institution.

At the moment, the main legal basis for the award of PPP contracts is the **Law on Concessions.** This law regulates the award of concessions, their subject matter and other relevant matters. The law also establishes the Commission for Concessions and defines its role.

Details on the Law on Concessions and examples of successful PPPs are presented in Annex 7.

First examples of Public private partnerships has been concluded also for the tourism sector e.g. Lustica Development. Existence of the legal background and first projects show that there is a room for further development of PPPs including carbon reduction considerations in the project design.

Non distortion – avoiding crowding out effect and mobilising additional finance – crowding in effect

Public intervention through the Fund should have a role in incentivising early action by front runners and having a demonstrative effect while at the same time making sure public action does not deter private investment (i.e. the crowding out effect). The support provided by the Fund, especially to the private sector, must be designed to operate as closely as possible to market-based terms in order to minimize the possibility of introducing market distortion by its operations.

There is a need to conduct in-depth analysis of the specific market failures or sub-optimal investment situations which have proven to be financially viable but do not give rise to sufficient funding from market sources. The Fund role should be to mobilise additional private sector investments and therefore crowding-in additional finance.

As presented in chapter 2.5 mobilising private resources e.g. commercial banks to address the funding gaps on carbon reduction projects is at the very early stages, the lack of access to finance by tourism stakeholders is seen as one of the barriers to invest in climate change investments. From this perspective the risk of crowding out effect seems to be low.

Considering scarce public resources available on environmental projects, the Fund should cooperate closely with the commercial banks and other private investors to mobilise additional investments for carbon reduction and therefore crowding –in additional finance. Based on the experience of other financial facilities the highest potential for crowding in private finance exists, for example in the energy sector, transport or support to SMEs.

Complementarity and alignment of interest

[44] Official Gazette of the Republic of Montenegro, No. 30/02
[45] Official Gazette of the Republic of Montenegro, No. 08/09

As presented in chapter 2.5 various national and international stakeholders have started limited activities supporting either the tourism sector or the energy improvements programmes. The support offered by the Fund need to be complementary to other existing programmes and must ensure alignment of interest with all relevant stakeholders. Discussions with the stakeholders revealed that there is a need for a coordination mechanism to bring together all stakeholders who are interested in the establishment of the carbon reduction support mechanism for the tourism sector.

It is recommended to establish a Working Group (WG) on establishment of the support mechanism for carbon reduction in the tourism sector. The representatives of the WG should include main relevant stakeholders i.e. relevant Ministries (Ministry of Sustainable Development and Tourism, Ministry of Economy, Ministry of Finance); representatives of the municipalities (e.g. representative of Tivat municipality expressed their interest in being involved in the establishment of the Fund); international organisations (e.g. UNDP – CSD); tourist organisations and tourist associations; non-governmental organisations.

In addition, the leading Ministry behind the idea (the Ministry of Sustainable Development and Tourism) should nominate a coordinator who would lead the work of the WG and plan all preparatory work for establishment of the Fund.

Observations relevant for the Fund establishment

Considering that the tourism sector is comprised mainly by the private sector participant, support scheme for carbon reduction for this sector has to take into account possibilities of involving and assisting private sector participants. From this perspective two aspects need to be considered (1) possibilities of **providing state aid to private sector** (2) **involving private sector in mobilising resources** for carbon reduction endeavours. The analysis show that the State Aid regulations in Montenegro has been recently aligned with the EU State Aid regulations and investment and operating aid is possible for projects related to environmental improvements, especially renewable energy and energy efficiency improvements. In relation to mobilising additional financial resources analysis shows that there is legal framework for public private partnerships and there are first examples of such schemes already in operation. The experience of other countries clearly indicates that there is a high potential to cooperate with commercial banks especially on energy efficiency and renewable energy projects support. This option has to be further analysed by the Fund management at the stage of designing forms of assistance of the Fund.

There is also need to align the interest of all relevant stakeholders and ensure complementarity with other existing programmes. **A Working Group on establishment of the support mechanism for carbon reduction in the tourism sector** is recommended to be created together with nominating a coordinator from the lead Ministry of Sustainable Development and Tourism.

MODALITIES OF THE FUND:

RATIONALE, OBJECTIVES, GOVERNANCE

3 Modalities of the Fund: rationale, objectives, governance

3.1 Rationale for the Fund creation

In many countries, including Montenegro, the financial resources for implementing policy reforms are scarce. Environmental and climate change policies are only one of several state sectoral policies and are in continuous competition for financial resources with other state tasks e.g. health, education etc. The experience shows that environmental/climate change policies priority is usually low in the overall policy agenda and therefore it poses a challenge to find justification for supporting environmental and climate change improvements.

The benefits of creating environmental/ climate change Funds can be seen from the following perspectives:

- Benefits of the Fund should be seen in correlation with economic and social benefits. When implementing polluter pays principle Funds might provide desired assistance to overcome the affordability constrains. Through subsidising the poorest members of the society, mitigation of social aspects of environmental policy reforms can be achieved;
- Areas with higher environmental standards provide more economic and legal stability, making it easier to attract private investment. It also stimulates pro-environmental businesses such those in eco-technology, eco-tourism, or ecological farming;
- Financial support to environmental/ climate change policy goals contributes also to the political agenda, especially to the EU Accession Process by demonstrating the countries commitment to the necessary improvements.
- Establishing a Fund brings also a positive message to the public that the government cares about creating better living conditions for the society through environmental protection and that a long-term strategy for achieving environmental goals is secured despite possible political changes.

The choice of the mechanism will also depend on **how long perspective** is able to be provided by the government to the Fund. The longer perspective, the more success the fund promises. The relevant stakeholders (especially potential beneficiaries from the tourism sector) should see the fund as trustworthy source of finance following the long-term perspective. This is also relevant for possible attraction of additional sources of finance such as international/ bilateral donors. The relevant Ministry should be able to plan implementation of relevant policies in financially secured atmosphere. Usually not the cheapest, but most sustainable projects over the long term should be financed as the longer perspective stimulates higher cost effectiveness. Smaller projects with a long term planning and implementation period can achieve higher effectiveness in meeting environmental goals.

In the case there is **only a short-term budget in the fund and money is not secured for future years**, the Fund should only **finance small inexpensive projects, providing smaller environmental effects**.

3.2 Policy goals

3.2.1 National policy goals and commitments to carbon neutral tourism

Experience of successful environmental funds show that the Fund has to be clearly linked to national policy goals in the area in which it provides financial support. The Fund has to be seen as a tool providing assistance there were there is market failure and actions which would lead to achievement of national objectives need financial assistance or need a support to initialise and stimulate particular anticipated behaviour e.g. energy efficiency improvements.

Analysis of the national policy goals and their commitment to carbon neutral tourism reveal that in Montenegro there are no specific policy objectives to which the Fund could adhere. The policy goals are rather set on overall economy level and thus all sectors of economy including tourism should contribute to their achievement. The main policy commitments relevant for carbon reduction in the tourism sector include:

- The goal of 30% GHG emission reduction by 2030 compared to the 1990 base year (Intended Nationally Determined Contribution)
- the binding national target of a 33% share of renewable energy sources in gross final energy consumption by 2020 (The Energy Community)
- reduction of 9% by 2018 of the final energy consumption compared with average consumption in the period 2002 – 2006 (2011 Energy Policy of Montenegro)

When reviewing the main relevant strategies it can be seen that some of them include elements relevant for carbon reduction I the tourism sector e.g.

- the Law on Energy and Energy Efficiency put an obligation on energy users to adopt various measures to improve energy efficiency;
- Regulation on the tariff system established preferential prices of electricity and for renewable energy sources and the rulebook on minimum energy efficiency requirements of buildings.
- The National Strategy for Sustainable Development identifies sustainable tourism as a leading sector of the economy and identifies the need to develop a plan to reduce GHG emissions.
- The Tourism development Strategy recognises climate change as one of the threats to the tourism. It does not provide any specific directions to be taken.

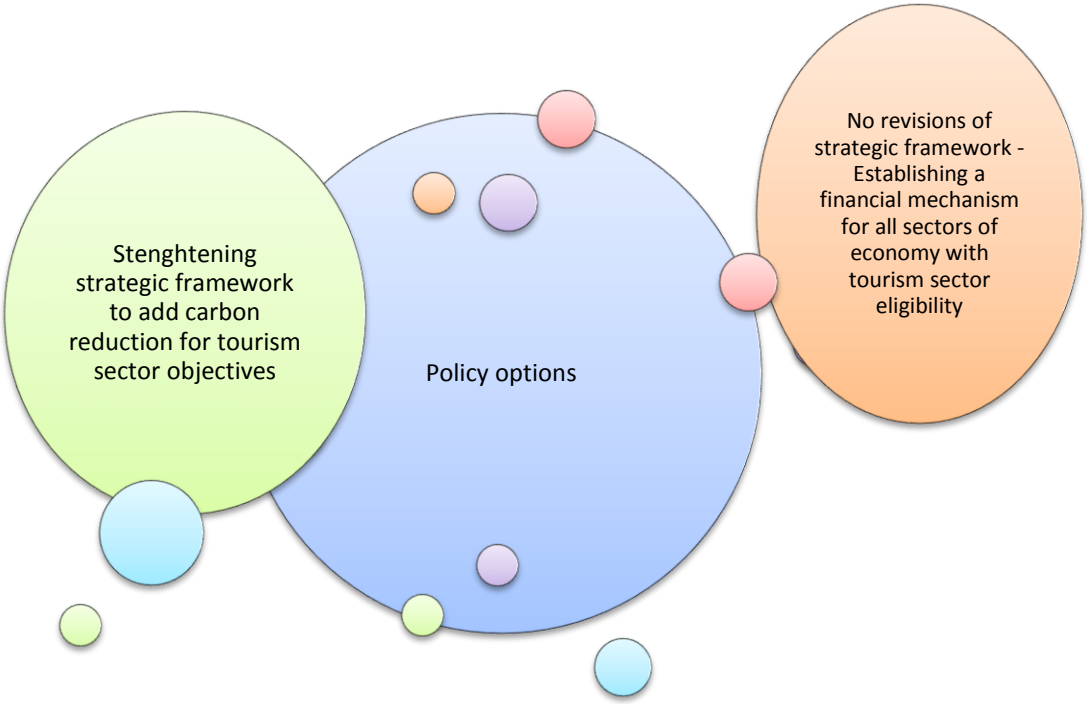
Policy goals have to be also seen from the EU Accession perspective. The EU Progress Report notes that in majority of fields the legislative alignment and implementation of the climate acquis is at a very early stage. In the EU MSs recently adopted EU Directives such as the Directive on energy performance of buildings or Energy efficiency Directive became a driver for designing financial support schemes to support their implementation. The medium and long term perspective of the Fund should consider the implications of transposition of the EU legislation to the national framework and expected obligations also relevant for the tourism sector.

Conclusions and recommendations

Currently the strategic framework does not provide clear and policy objectives specific enough to provide clear guidance to provide justification for creating a National Tourism Climate Fund . In this situation **two policy options could be considered;**

(1) Strengthening the strategic framework by revisions of the existing strategies to add carbon reduction in the tourism sector dimension. Such revisions could be done especially for the National Strategy on Sustainable Development, the National Tourism Strategy or the National Climate Change Strategy. In the case the strategic framework is strengthening it will provide a justification for creating a separate body such as the National Tourism Climate Fund.

(2) Establishing a financial mechanism for carbon reduction measures covering all sectors of economy which is justifiable based on the existing energy efficiency and renewable energy policy goals. Considering the special place of the tourism sector in the Montenegro economy, the scheme would have a window for carbon reduction measures in the tourism sector.

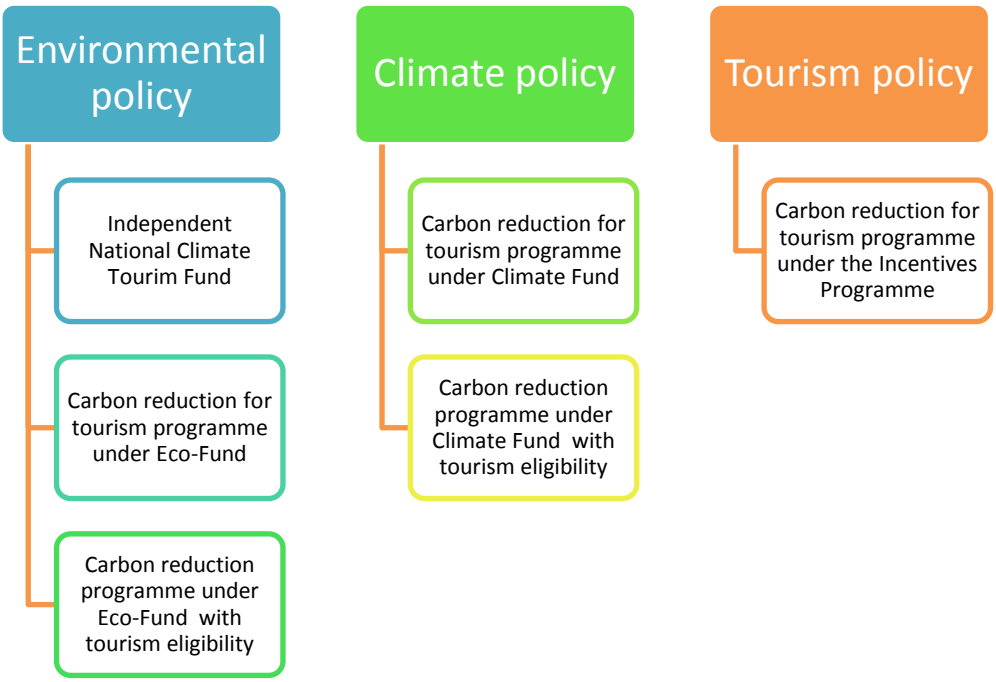


Both policy options are taken into account in the models presented in the following chapters.

3.2.2 Possible models for support mechanism for carbon reduction in the tourism sector in Montenegro

Considering the national policy objectives and commitments, planned establishment financial instruments for climate change and results of interviews with key stakeholders, the following models could be considered for supporting CO2 reductions in the tourism sector in Montenegro. The support mechanism for carbon reduction in the tourism sector can be approached from **three**

different dimensions; from environmental policy, climate policy and tourism policy angle. All of proposed models will enable tourism sector representatives to benefit from support mechanism.



Model 1 – Independent National Climate Tourism Fund	
PLUSES - Clear priorities for spending - No competition with other sectors of economy - Focus of the Fund on one objective of carbon reduction	MINUSES - Need for a separate legal act - Current policy objectives not explicit enough to provide justification for the Fund creation - Challenge of securing sources of revenues (e.g. lack of carbon tax or similar taxes) - Need for a separate administration to manage the Fund - Lack of experiences with managing independent Funds
POTENTIAL – LOW - Montenegro administration struggles with establishment of the Eco-Fund for a number of years. Current revisions of the Law on Environment (if adopted) will contain provisions for creating Eco-Fund. The idea of creating Eco-Fund obtained a positive opinion of the Government and will be under Parliamentary discussions in the second half of 2015. - Revisions of the current strategic framework in order to provide a strong justification for an independent Fund creation can be expected to be time and resources consuming and the result would not be certain. - Opportunity to create one strong financial mechanism such as planned Eco-Fund should not be missed and the attention of decision makers should be not distracted to propose another independent instrument.	

Model 2 – Carbon reduction for tourism programme under Eco-Fund	
PLUSES - Legal basis provided under the Eco-Fund - Efficiency gain with the same administration and management system - Allows for gradual building of capacities among the tourism sector and scaling up of support	MINUSES - Resources for climate change improvements in the tourism sector might have a lower priority than other environmental priorities - Low capacities and skills on project preparation within the tourism sector might lead to low rate of

- Creates a room for gradual move towards future independence.	applications.
POTENTIAL – HIGH - There is a policy "momentum" with discussions on establishment of the Eco-Fund. The current draft for Eco-Fund foresees support to climate change. Tourism as a leading sector of economy might deserve in the eyes of decision makers a special support programme. - Current support provided by UNDP under the Towards the Carbon Neutral Tourism in Montenegro provides a background and know how on establishment of the support scheme.	

Model 3 – Carbon reduction programme under Eco-Fund	
PLUSES - Tourism sector eligible for support equality to other sectors of economy - No need to wait for revisions of strategic framework	MINUSES - Other sectors of economy might be better placed to prepare applications - No separate resources earmarked for tourism
POTENTIAL – MEDIUM - In the case there is no strong policy commitment to creating a separate support programme for tourism sector, the sector should be still eligible for support under the Eco-Fund priority on climate change improvements. - This approach would also allow for gradual introduction of support to carbon reduction in the tourism sector	

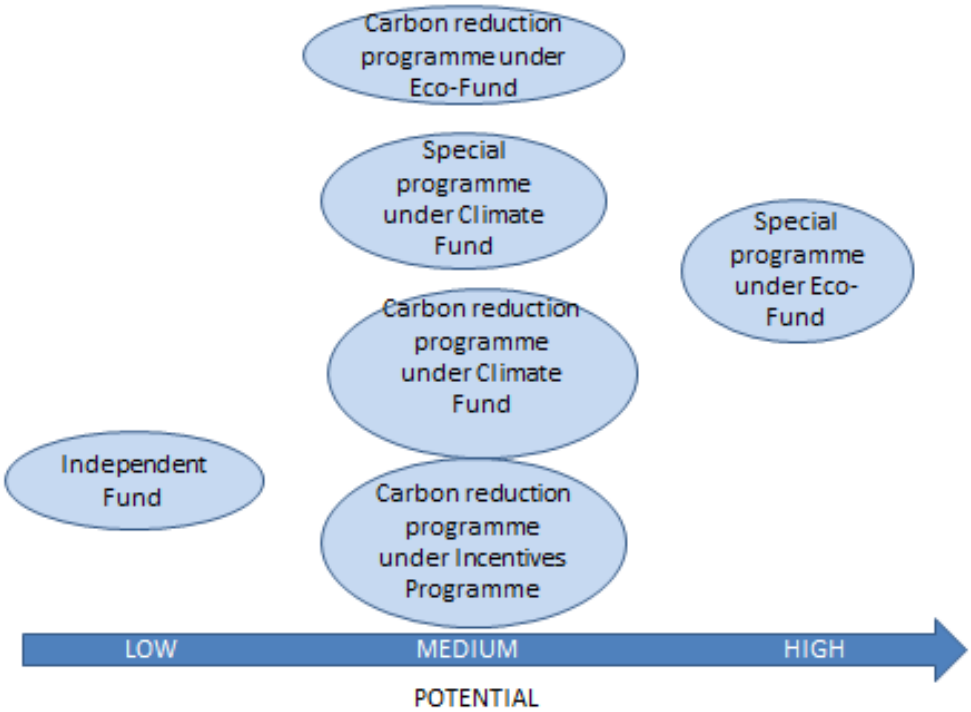
Model 4 – Carbon reduction for tourism programme under Climate Fund	
PLUSES - Clearly linked to implementation of the National Climate Change Strategy - Allows for special focus on tourism sector	MINUSES - Establishment of Climate Fund is mentioned as a recommendation under the recently adopted national Climate Change Strategy – no further details on e.g. revenues, modalities legal basis are known
POTENTIAL – MEDIUM - In the case the amendments to the Law on Environment are not passed, establishing the support programme for tourism under the Climate Fund could be considered. - Establishment of the Climate fund seems to be much further away on the political agenda than creation of Eco-Fund what lowers its potential.	

Model 5 – Carbon reduction programme under Climate Fund	
PLUSES - Tourism sector eligible for support equality to other sectors of economy	MINUSES - All sectors of economy eligible for support. Carbon reduction results might be estimated higher for other sectors.
POTENTIAL - MEDIUM - In the case there is no political support to favour special programme for the tourism sector under Climate Fund, this model would still offer eligibility of the tourism sector for using the Fund resources for carbon reduction projects.	

Model 6 – Carbon reduction for tourism programme under the Incentives Programme	
PLUSES - Clearly linked to the tourism sector as the Incentives Programme is proposed under the Law on Tourism	MINUSES - The Incentives Programme is only at the design stage. No experience with implementation.

POTENTIAL - LOW

- The Programme of Incentives is at early stages of development, and until now climate change was not considered under its support.



Conclusions and recommendations

All presented models give an opportunity to support carbon reduction measures in the tourism sector. Currently the highest potential is with establishment of the special programme under the Eco-Fund. The choice of a model is a combination of political decision and progress on establishment of financing instruments such as Eco-Fund or Climate Fund.

3.2.3 Possible legal set up options (available models)

The experience of recent years shows that there is no one-and-only successful legal model for the Fund development. Fund models can vary widely and still be successful although developed from different approaches. The success of the proposed model depends on how the country's legal structures were adapted to the Fund, political support and effectiveness and efficiency of the Fund's operations.

In general, any organisational structure of the planned Fund is possible, as long as the long-term perspective and objectives are kept in mind and the Fund assists in **achieving long-term policy goals in an effective and efficient way**. The first step in establishing the Fund is deciding on the type of Fund to be developed.

A commonly used typology of Funds provides their characterisation by budgetary aspects. The most popular types of Funds and their characteristics are presented below.

Type	Characteristic	Advantage	Disadvantage	Comment
Budgetary fund	Defined budget line in the state budget Volume of expenditures and origin of funds is often fixed Annual budgeting	Opportunity to have more money to disburse, even if revenue sources are delayed	No legal provisions for existence of the fund. Difficult to attract donors. Implementing projects is the main driver, as money has to be spent in a budget year.	Can operate efficiently if common agreement on a long-term strategy exists.
Extra-budgetary fund	Separate institutional set up. Can be designed as a legal entity. Refinancing capabilities of the fund legally determined	No problem with annual budgeting. Easier to attract external donors.	Importance of stringent control system to stay in line with long-term objectives.	Similar rights to influence fund (as in budgetary funds) often reserved by ministries of finance.
International donor fund	Money channelled through one institution	With administration and financial stability, able to attract many donors.	Depends more on political objectives of donors than on environmental policy goals.	Combination with budgetary and/or extra-budgetary fund usually used.
Debt for environment swap	National debts paid to the fund as a source of revenue according to negotiated rules with a donor community	Mechanism created with multi-year perspective	Importance of a special unit to coordinate policy goals	Without transparency, cannot be integrated into national funding scheme.

Based on Establishing an Environmental Fund; Aumer, Fiedler, Lammers

In general, the Fund should be well integrated into the country's legal hierarchy and founded on the highest possible act or regulation. In the case a separate act is planned, it should include provisions such as goals of the fund, sources of revenue and institutional set-up.

The legal basis should be accompanied by Guidelines for the Fund operations.

Box 10: Example of common elements of Guidelines

- More detailed definition of the fund's goals
- Eligibility criteria
- Administrative conditions to receive funding
- Technical conditions
- Economic conditions (such as a sound financial plan)
- Rules of selection process and priority setting scheme
- Maximum rates of subsidies and method of their calculation
- Forms of available assistance
- Methods of payments
- Control and payment conditions

3.2.4 Possible management systems

As the experience shows, not the form of the financing institution is important, but the efficiency of the management system. Examples of management systems include:

- **Unit within the relevant ministry:** in this set up, often technical units of the Ministry are given additional task for technical assessment during the selection process, while economic and financial units are responsible for assessment of economic and financial aspects of the projects management. Staff of the Ministry is often trained to fulfil policy based work, not

project work, therefore a shift to project cycle management requires a major capacity building and training.

- **Ministerial unit outside the structure of the ministry:** it is a commonly used management system in Europe e.g. Czech Environmental Fund. The funding manager and staff are part of the public administration, which reduces costs and at the same time allows for decision making freedom. This brings more flexibility and if the staff is civil servants – stability to the system.
- **Decentralisation:** in this case regional administration is empowered with some funding tasks (e.g. Polish Environmental Funds for Voivodships, counties and municipalities). This structure requires a very mature system, with a lot of training provided to the regional level actors. This structure at the same time strengthens the region and allows for better focusing of assistance to the regional needs.
- **Outsourcing to a private institution:** many tasks of the Fund can be outsourced. A hired body can run the application process, technical, economic and financial appraisal of applications and after approval, control the implementation process. In some countries, all tasks are outsourced to a single private body (e.g. to the Kommunalkredit Public Consulting.
- **Hybrid system;** in this system many options are possible combining various management modes for specific purposes.

3.3 Objectives and priorities of the Fund

Depending on the model chosen the objectives and priorities of the Fund support can be defined. At the moment, at these very early stages of planning support mechanism for the tourism sector only indications of possible objectives and priorities can be given.

Key questions for defining the objectives of the support mechanism include:

- What are the national priorities on climate change? Which short, medium or long term strategies the proposed mechanism should support?
- What will be the focus of the mechanism; e.g. thematic by sub-sectors; energy efficiency, sustainable tourism or by groups of stakeholders; support to SMEs, municipalities etc.
- How the objectives of the support programme be related to the objectives of other international and national support mechanisms?

The forms and types of support should be designed for the priority actions. The areas with the highest mitigation potential in the tourism sector include:

- Energy efficiency improvements in the buildings (e.g. hotels and accommodation facilities)
- Energy efficiency improvements in public spaces (e.g. street lighting in touristic areas)
- Renewable energy development for the tourism facilities
- Support to the shift to sustainable transport (e.g. use of biofuels, modal shift, public transport development, mobility management, fleet renewal etc)

Example of objectives and priorities

Overall objective	To contribute to the national effort in GHG emissions reduction
Specific objectives	- To support the shift to carbon neutral tourism sector; - To support tourism sector stakeholders in compliance with national obligations

	- To build capacities on options to provide carbon neutral tourist services
Programme priorities	Support is provided to : - Improvements in energy efficiency in the hotel and accommodation facilities; - Development and extension of renewable energy sources for the hotel facilities and public buildings in the touristic zones; - Shift to sustainable transport through change of fuel, fleet renewal, public transport development etc. - Technical assistance on conducting energy audits for accommodation facilities.

The choice of priorities will depend on the available financial resources.

3.4 Revenues /Sources of financing

Capitalisation of the Fund has to consider three main possible sources of finance; national, international and carbon offset schemes.

National sources of revenues

In the case the Fund (support programme for carbon reduction in the tourism sector) will be part of planned Eco-Fund it can be expected that part of the pollution charges earmarked for Eco-Fund activities could be dedicated to the support for tourism. Depending on the political commitment to supporting carbon reduction measures in the tourism sector the following scenarios can be considered;

Scenario – level of commitment. Percent of earmarked revenues for tourism sector	Expected revenue [EUR]	Expected revenues including water pollution charges [EUR]
High – 20%	72,000	572,000
Medium – 10%	36,000	286,000
Low – 5%	18,000	143,000

Notes: The average total revenues from pollution charges for last three available years is EUR 360,000; the only available data on water pollution charges for year 2012 is EUR 2,500,000.

The scenarios show that in the most optimistic case the amount allocated to tourism sector can be at the level of 0.5 mln Euros annually, assuming the revenues level for the pollution charges for water. Nevertheless based on the discussions with stakeholders, there are several higher level environmental priorities than carbon reduction in the tourism sector e.g. waste management; therefore it is unlikely to expect 20% allocation. In the medium level scenario the revenues of the Fund would be at **the level of EUR 280,000 annually**.

The revenues for carbon reduction measures could be enhanced by introducing new taxes. For example a carbon tax is an instrument to consider covering all sectors of economy. Nevertheless, the idea of carbon tax is currently not under considerations by decision makers. In the case of specific taxes on the tourism sector, the existing city tax could be increased to include CO2 emissions by tourists. The city tax is paid by all tourists (national and international) per night spent. The amount of city tax on CO2 emissions could be considered under the three following scenarios;

Scenario – amount of CO2 emissions tax added to the city tax	Expected revenue [in EUR] based on 2014 number of registered overnight stays
High increase – 0,20 Euro	1,900,000
Medium increase – 0,10 Euro	950,000
Low increase – 0,05 Euro	475,000

Notes: Based on the Tourists statistics (MONSTAT), the number of registered tourist overnight stays (domestic and international) was about 9.5 million overnight stays

In the case the city tax would have been increase by tax on carbon emissions by tourists. The revenues gathered could reach a level of around 2 mln euros per year in the case of increase of city tax by 0,20 euro. All of the stakeholders interviewed e.g. representatives of the national authorities, municipalities or tourism industry highlighted that the tourists should not be burdened with additional financial burdens, therefore increase of the city tax, considered by many already as high, should not be realised. Nevertheless, according to the medium level increase, only 0.10 cents increase would be able to generate revenue at the level of around **1 mln euro per year**.

International sources of revenues

UNDP – seed money

Under the current project Towards the Carbon Neutral Tourism in Montenegro, the UNDP plans **allocating 1 mln USD** to carbon reduction projects in the tourism sector. These resources could be used by the Fund as seed money for its first years of operations. This would allow supporting pilot projects, to analyse the market needs and gaps and build capacities on management and administration of projects. Moreover, this resource could also attract other donors (bilateral) to channel their resources through the Fund.

Based on the discussions, other donors, such as the European Commission, might consider at later stages their contributions, but they have to be packaged under the EU priorities e.g. energy efficiency.

Co-financing

There are several options for co-financing projects with a number of stakeholders. The most promising is cooperation with the National Investment Development Fund, where the Fund could provide technical assistance component on carbon reduction measures for the projects under the hospitality programme run by IDF. Other international organisations, like the EBRD, are also open for further discussion on the options for co-financing specific projects.

Special consideration has to be given to commercial banks, as the experience shows that there's a high potential for co-financing credit lines (e.g. support to interest rates) especially on energy efficiency and renewable energy.

The role of carbon-offset schemes

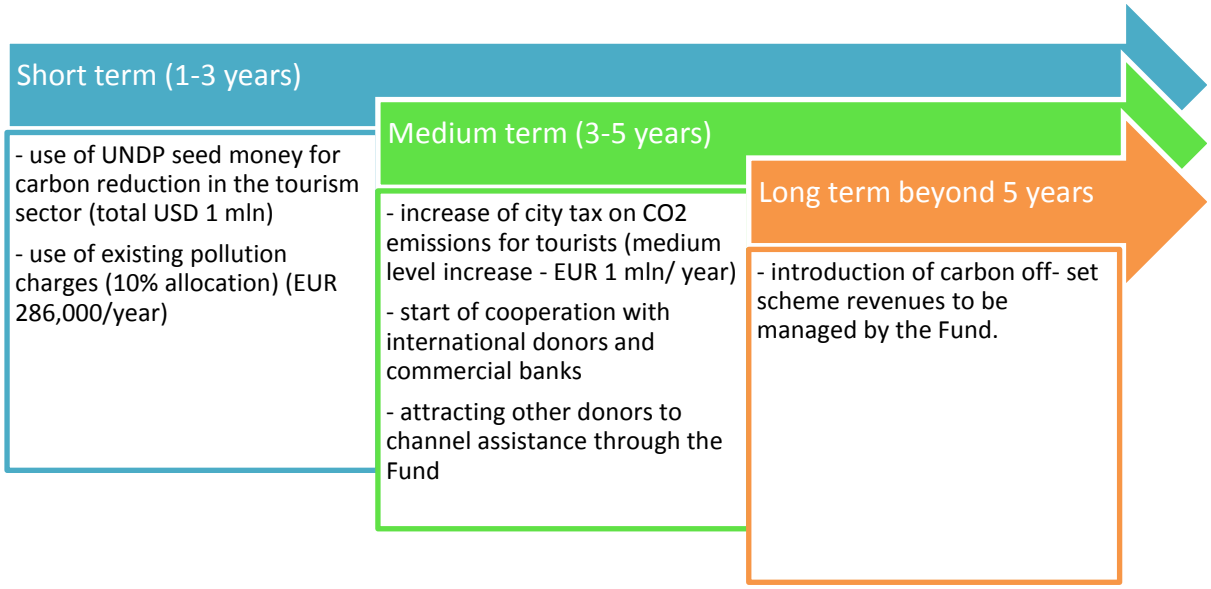
A comprehensive study on possibilities and options for establishment of a carbon offset scheme has been developed in parallel to this Study. The main issues relevant for discussing the potential role of carbon offset schemes in financing climate change improvements are:

- The carbon offset scheme can finance only local projects outside of the boundaries of what is to be claimed carbon neutrality. It means that in the case the whole tourism sector will be the aim of carbon neutrality, then the projects from carbon offset proceedings need to be spend on other sectors e.g forestry.

- The Fund (support programme for carbon reduction in the tourism sector) will be well placed (by administration, management and know how) to be entrusted in managing the resources from the Fund.
- As the carbon offset scheme is proposed to be a pilot scheme in the first instance, the potential of carbon offset scheme to become a source of revenue of the fund is low and has to be considered in a long-term planning.

Conclusions and Recommendations

Considering the potential for various sources of capitalisation of the Fund it can be concluded that not all of them can be mobilised at the beginning of the Fund operations. Therefore the approach taken should allow for gradual mobilisation and evolution of sources of finance. The graph below proposes an example of gradual mobilisation of sources of finance for the Fund.



It is proposed to apply a phased approach to establishment of the NTCF with:

- **Pilot phase** covering short-term 1-3 years will provide for development of standard needed documents and operations of the NTCF, including needed templates, procedures and operational documents. The implementation of the Pilot phase will be supported and tested through using the UNDP seed resources and possible first allocations from the existing pollution charges.
- **Long term vision** (from 3 years onwards) foresees establishment of fully fledged NTCF with extension of new sources of revenues and financing tools.

3.5 Governance system

This section introduces the main roles and responsibilities of a governance system for a functioning of a Fund based on an international practice. It has to be noted that the names of bodies to fulfil described roles may differ and they are suggested as an example only.

There are three main levels of responsibilities to be given in a governance system; strategic advice, executive decision and technical advice. To fulfil these responsibilities there are three types of bodies with prescribed responsibilities in operation: A strategic body, an executive body and an advisory body.

Strategic bodies (e.g. Strategic Boards, Steering Committees) are responsible for providing strategic guidance and advice. They are responsible for setting long term priorities according to the Fund's policies.

Executive body (e.g. executive committee, operational board) is responsible for the approval of projects for financing. They also take decisions on operational issues related to the implementation of the Funds resources.

Technical body (e.g. technical board, advisory group) is responsible for the technical screening and assessment of projects. They recommend projects to be approved by the executive body.

Some of the functions of the abovementioned bodies can be combined. An important principle should be kept in mind:

	Strategic body	Executive body	Technical body
Strategic body	X	Yes	No
Executive body		X	No
Technical body			X

In the process of establishing the Fund it is important to determine the roles and responsibilities of the Ministry and/or other relevant national authorities. Usually the Ministry should perform the tasks of strategy, approval and control.

How to involve stakeholders?

The participation process of all interested stakeholders is usually done between the appraisal and approval of projects. Usually an advisory body is appointed and it might consist of representatives from other affected sectors, representatives of the political parties, interest groups representatives, municipalities, NGOs, scientific experts. The chair should be taken by the Ministry.

Example roles and responsibilities of the advisory body include:

- Review of reports prepared by the Fund on its operations and support;
- Advice and recommendation in the formulation and preparation of legal framework;
- Involvement in the development of rules governing the setting of a support policy, support priorities, technical criteria, eligibility rules
- Advice and recommendations on individual projects on the basis of the opinion of the fund and applicants.

Example of roles and responsibilities of governance bodies is presented in Annex 8.

Considering the model of Eco-Fund and the option that the Environment law is adopted and legal base for the Fond establishment is introduced, the Government needs to decide how to continue with the Fund's institutional set up and operations:

a) prepare a special law on Eco fund (more complicated and slower solution) or
b) adopt a decision on the establishment of Eco fund (easier and faster solution).

If the second option is chosen, it should be checked whether the existing text of the draft law provides necessary basis for a decision adoption or it should be amended in a way that stipulates that the Government shall adopt the founding act of the Fund.

In any case, such regulation should contain provisions on the following:

- name and seat, seal and stamp,
- Fund's activities,
- bodies of the Fund,
- statute and other general and individual acts of the Fund,
- funding,
- use of fund appropriations,
- work plan and operations of the Fund,
- rights, obligations, and responsibilities in legal transactions,
- control of the Funds operations, and
- transitional and final provisions.

Box 11: Examples of key documents for the programme establishment

The Statute shall be enacted by the managing board of the Fund with the approval of the Government. It should regulate: organization and operation of the Fund, competency and work of the managing and supervisory board and the Fund director, agency and representation of the Fund, rights, liabilities and responsibilities of the Fund employees, organization of the activities and other issues of relevance for the work and operations of the Fund;
The Fund should adopt the Rulebook on internal organization and systematization of posts within the Fund – which lists internal organizational units of the Fund and their sphere of competence, systematization of workposts and job descriptions for each listed post,
The Fund should adopt Code of Ethics based on international best practices. The Code of Conduct should be obligatory not only for the employees, but also for managers and the members of the managing board, and as such should be made an annex to all employment contracts, management contracts and appointment letters for the members of the managing board. It usually contains provisions related to (i) work discipline, (ii) business attire, (iii) client and business partner relations, and (iv) treatment of entity assets. The Code also sets out the rules and obligations of all employees and directors in relation to these four areas of conduct, and rules on workplace conduct and sanctionable practices. Additionally and importantly, the Code of Ethics should address the issue of 'business secrecy' and Fund loyalty.
The Fund could adopt a Corporate Governance Code to reflect best corporate governance practices, as well as to be in compliance with national regulatory and 'soft-law' requirements. The CG Code should contain provisions on (i) commitment to corporate governance (definition of key principles, documentation, key governance structures, compliance and monitoring); (ii) Managing Board practices, management, interaction with other stakeholders; and (iii) as appropriate, information disclosure and transparency (policies and practices, financial reporting, internal controls and internal audit). The CG Code serves as a programmatic document that would address plans to achieve higher standards in the area of corporate governance in the future. Adopting such Corporate Governance Code also gives a very strong message to external stakeholders, and would mark the Fund as a leader in Montenegro for well-established corporate governance practices.

The role of the Secretariat

Secretariats is a neutral body that supports the relevant governance bodies in their operations. The Secretariat usually deals with the following tasks:

- Administration: preparation of board meetings (e.g. agenda, room, invitations, minutes), preparation of technical meetings (e.g. agenda, room, invitations, minutes); reception and registration of project application forms; management of external and internal correspondence, management of project database;
- Support to coordination; support to preparation of reports (e.g. annual reports); organisation of events relevant for the Fund (e.g. workshops for potential proponents); coordination of preparation of promotional materials; administration of websites,

3.6 Disbursements / forms of support/ expenditures

This chapter provides an overview of typical forms of assistance offered to projects.

Forms of assistance

Grants

The most frequent form of support by the environmental funds is in the forms of grants for technical assistance or investment grants.

Technical assistance is used to provide tailored assistance to meet specific needs of a project. TA can be provided for project preparation as well as for project implementation. It can be used to address aspects related to the project enabling environment or key aspects for the success of the project implementation (capacity building of the different stakeholders, supervision of works etc) in the case of infrastructure projects, TA is usually provided for the preparation (e.g. feasibility study) and implementation (e.g. supervision of works, capacity building) For projects supporting private sector development such assistance can take place for example in a form of drafting a business plan. Without TA, many projects would not start, due to a lack of resources to ensure appropriate preparation of the project. TA is the most effective when linked to a concrete investment project. TA used during preparation and/or implementation of the project, will assure quality and sustainability of the project. Standalone TA without a clear link to an investment project, risks having a weak or only temporary impact.

Investment grants

Investment grants are contributions which can finance specific components of projects, or a percentage of the total project cost. They can include incentive payments, such as subsidies to final beneficiaries for investing in an energy saving programme. Investment grants can cover part of the total project cost. They are typically provided for public sector managed projects but are also often used in private sector context, especially supporting investments in innovative, green technologies leading to carbon reduction. The need for a grant and its amount will depend on the projects' specific economics. It will generally be used for projects that have high economic rates of return but low financial profitability.

Interest rate subsidies

Interest rate subsidies are contributions used to cover part of interest payment for loans. IRS is used to reduce cost to end users or taxpayers by reducing interest/ financing cost. Interest rate subsidies, being linked to a loan, usually from other finance institution, provide less visibility to the Fund than investment grant.

The use of risk sharing instruments

The use of risk sharing instruments (guarantees and risk capital) is motivated by the need to use the limited available budgets funds as efficiently as possible, as well as by the assessment that grants may not constitute the optimal type of support in some settings. This applies specifically to cash flow generating projects whose viability is impeded by specific market failures or institutional failures. Many projects, especially in the innovative fields, like carbon reduction, are subject to many risks that are outside the control of investors and that can include the country or political risk. In relation to renewable energy projects there are additional risks e.g. hydrological and geological risks in hydropower projects, wind risk etc. Guarantees and risk sharing instruments can help to address these issues and make more financing available, at a lower new cost to the Fund and also potentially providing better alignment with other financiers.

Guarantees are legally binding agreements under which a party (the guarantor) agrees to pay part of the entire amount due to a loan, equity or other instrument upon realisation of a number of agreed event (non-payment, loss of value etc). Guarantees exist in many forms and can be tailored according to specific perceived risk. Guarantees are used in the event that risks are seen as too high in the eyes of the financiers. Undisbursed amounts are returned to the guarantor.

Risk capital is defined as money provided to private sector and/or revenue generating projects which in certain cases share their loses and profits. Risk capital can be provided in different legal forms, which have their own risks and return profiles. In principle the main forms of risk capital exist: equity, loans and the mix of these two, called mezzanine. Each form is used in such a way that the cheapest mixture of financing forms is chosen for the project to generate certain net revenue.

Equity gives ownership and shares in the profits of the venture, but will also be the first in line to bear the losses, after any company project reserves are depleted.

Loans are normally given on the basis of a borrower giving a form of security, usually on physical assets but also other assets, e.g. a guarantee. The cost of loans (interest rate) varied enormously, based on the borrower's financial strength (credit rating), security offered, existing level of debt, length of the loan etc.

Mezzanine capital is grouped between shares and loans, they can have various forms.

Grants versus loans

Loan schemes are chosen by the Funds in the case if other sources of loans are difficult to find for investors for the type of supported projects. Such difficulties may result from an underdeveloped capital market, generally high interest rates or the investor's poor credit rating. The Fund management need to consider, before opting for a relatively complex and, more importantly, long

term loan scheme, whether the problems can be solved more easily. Loans require a huge amount of money available. Loans also include the repayment risk, so it is unclear as to whether the money lent to the beneficiary will be repaid along with the risk of losing money.

Grants are a suitable tool, particularly on developed money markets, because fewer public funds must be raised and assistance can be tied in with loans.

Types of costs financed

As a good practice Fund money should only provide the capital cost of projects, not the operational costs. Though, financing decisions must consider projected operational costs in order to ensure that projects will be financially viable.

Rate of assistance

The rate should encourage investments while at the same time to support the most cost-effective solutions. Optimal rates depend on a number of environmental, economic, regional and social criteria.

By providing state aid the authorities must ensure that they do not distort the competitiveness and should seek to encourage restructuring of and innovation in the industry/sector by supporting investments which result in more environmental friendly consumption.

The major purpose of public support is to provide incentives to local communities and enterprises to undertake environmental investments by spending more of their own resources. Therefore, the rate of support should be set in such a way to ensure that it does not replace the recipient's spending. Thus, assistance provided by the Fund, should be seen as a last resort for covering the financing gap of an environmental project. Projects that can be financed by other sources; state budget, local budgets, the enterprises themselves or commercial financial institutions should not be financed by the Fund due to a principle of Additionality. The level of subsidy should be kept at the minimum which can be defined as the rate of assistance that makes potential environmental projects economically viable. Experience shows that, the lower the aid intensity, the more it helps to save limited public means and leverage additional resources from private and international sources, thus bringing higher environmental benefits at lower eternal costs.

The main elements of defining terms of financing are summarised below

Element	Characteristics
Definition of eligible costs	Aid intensity always refers to eligible costs. In general, eligible costs include all costs deemed reasonable and necessary to ensure completion of a project. these are costs directly linked to the achievement of environmental objectives states by the project and supported by the Fund.
Form of subsidy	The exact cost of many projects is difficult to calculate up from, which is why it is better to fix aid intensity as a percentage of eligible costs rather than as a lump sum.
Limits of aid and investment cost	Before fixing aid intensity, its lower (entrance) and upper limits need to be agreed. Entrance limits aim at generating projects of a certain size. In addition, setting entrance limits also allows eliminating very small projects submitted for financing from the fund, thus reducing staff administrative burden. There could be other public finance schemes in the country which support small projects and where such projects will better fit in.

MODALITIES OF THE FUND:

PROJECT MANAGEMENT CYCLE

4 Modalities of the Fund: project management cycle

The internationally recognised good standards for institutional set-up, management and performance of environmental funds were designed by OECD in 1995[46]. The so called St Petersburg Guidelines were used as a benchmark in assessing the performance of a number of environmental funds in Central and Eastern Europe. The Guidelines provide a number of criteria relevant for establishment of the Fund. The main recommendations of the St. Petersburg Guidelines include:

- To avoid or minimise the long-term economic inefficiencies inherent in earmarking of funds, expenditure should be targeted to environmental priorities and projects with large environmental benefits relative to their costs.
- Environmental funds should play a catalytic role in financing environmental improvements and support, not compete with, emerging capital markets.
- Environmental funds should reinforce other environmental policy instruments.
- Environmental funds should develop an overall financing strategy, follow clear procedures for selecting projects in order to ensure cost-effective use of resources, adopt effective monitoring and evaluation practices, and make effective use of internal and external expertise to enhance administrative efficiency.
- Environmental funds should leverage increased private sector resources and capital market financing for environmental investments.
- In designing and evaluating fund revenue mechanisms, environmental authorities should ensure environmental effectiveness, economic and administrative efficiency, equity and acceptability.
- Environmental funds should ensure transparency and should be accountable to government, parliaments and the public for their actions.

The main elements of a standard project cycle management to be applied by the Fund are presented below.

4.1 Programming

Long term programming for the Fund acts as the main source of justification for spending money. Programming is mostly a political process and a government responsibility while individual projects apprise, selection and financing is a technical process conducted by a responsible technical body accountable for its performance.

The Fund should have an overall financing strategy, regular, usually yearly implementation programmes (or budgets); an adequate project cycle for all projects; and monitoring and evaluation of programme implementation against its stated objectives.

Financing strategy

[46] The St. Petersburg Guidelines on Environmental Funds in the Transition to a Market Economy (OECD/GD(95)108, Paris, 1995.

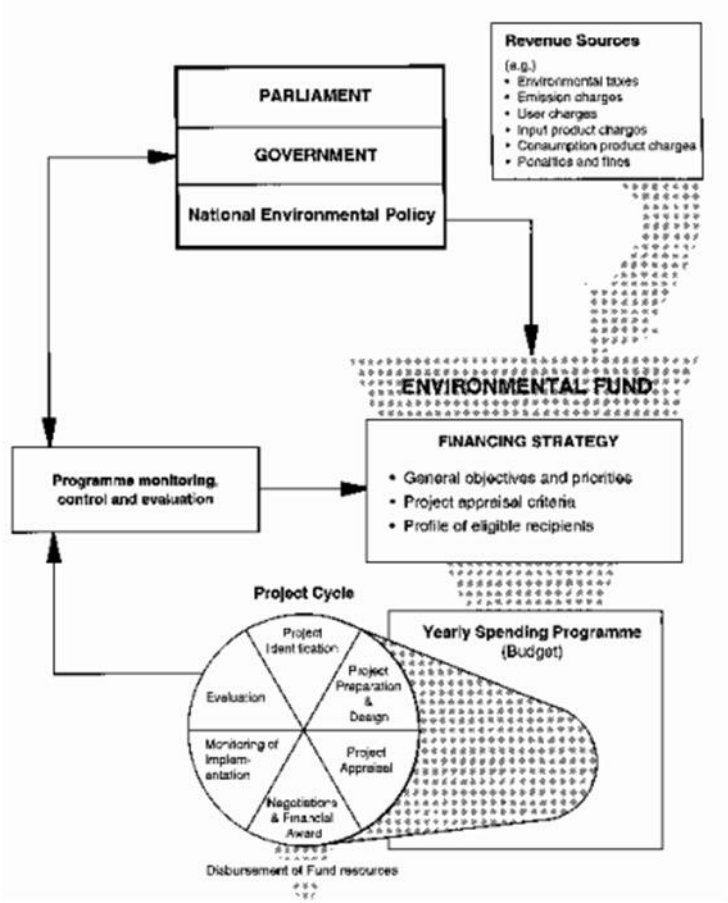
Fund's financing strategy should be determined by the government bodies and approved by Parliament. The overall themes of Fund strategy should be indicated in the Fund's funding documents (e.g. charter, status) and if necessary, in more detailed multi-year strategies.

The Financing strategy provides a clear guidance for developing the Fund's spending programmes and for project implementation choices.

The financing strategy should cover the following issues:

- Describe Fund objectives and set priorities among different tackled issues;
- Priority list of problems to be addressed. While the Fund strategy identifies priority problems it should not specify specific solutions. The solutions are identified by project cycle stages.
- Specify appraisal criteria for projects to meet, effectiveness, cost-effectiveness and possibly technology standards.
- Planned support to different target groups (e.g. local authorities, private sector etc)
- Planned split between different priorities
- Planned support through different types of funding (e.g. grants, technical assistance)
- Available level of assistance (e.g. 60% of project costs)

Graph below presents the *Schematic interrelations between the programming and project cycles which shape the management structure of the Fund* (taken from the St Petersburg guidelines of the OECD)



The financing strategy is a public document and it is made available to potential Fund beneficiaries. It should be reviewed on a regular basis.

The long term goals of the strategy should determine the goals to be achieved by the Fund in the period of around 10 years. On the basis of long term goals, short term (two –five years) and yearly programmes are elaborated.

The Financing strategy needs to be also linked to the national policy objectives (climate change and tourism). Strategic documents in these fields should be specific enough to indicate the relevant priorities and its investment implications.

Yearly spending programme (yearly action plans)

The yearly spending programme (or budget) is a key tool for translating overall Fund financing strategy into specific priorities. Usually the Fund management body prepares the yearly programme while the Funds executive (decision making) body approves it.

The main elements of the yearly plans include usually:

- Description of follow-up work on monitoring and financing of projects approved through the end of the previous year,
- Description of work anticipated concerning the identification, appraisal and approval of new projects including priority areas for support in the coming year

- A plan for institutional development of the Fund (including training, capacity development activities, promotional activities, public relations and mass media outreach efforts)
- Planned budget for the coming year, including estimated figures for expenditures on investment projects and the operational maintenance (i.e. administration of the Fund.

Comments and Conclusions
Long term planning of the Fund activities is presented in the approved long term financing strategy and follow up yearly spending programmes. The Financing strategy must be closely linked to the national policies (climate change and tourism) and to demonstrate how the Fund activities will contribute to achieving the national policy goals.

Recommendations

⇓ Operational Steps: to develop an overall financing strategy for the Fund
⇓ Operational Steps: to develop a template for yearly spending programmes
⇓ Operational Steps: to develop a yearly spending programme for the first year of operation

4.2 Standard project cycle

A standard project cycle for a Fund consists of the following main phases: identification, preparation, appraisal, selection, implementation, monitoring and evaluation. The project cycle is a practical and efficient tool provided that each stage of the cycle is clearly defined and supported by detailed and transparent rules and procedures. It provides a useful, logical framework which may contribute to achieving a high level efficiency and transparency in its operations.

There are a number of preconditions (institutional measures) to be in place before launching a project cycle. The most important include:

- Investment needs, related opportunities and limitations on the part of entities eligible for public financial support should be identified and analysed;
- Procedures for preparation and submission of project proposals and operational rules for staff for dealing with project proposals to be developed;
- Rules and criteria to be applied by the fund staff in the appraisal and selection process are to be developed;
- Rules for awarding financial support to beneficiaries and for supervision of the project implementation process are to be set;
- Policy objectives which should be achieved as a result of the Fund operations are determined.

Good Practice! *Conditions for an effective project cycle*

Key conditions for an effective and well-functioning project cycle are:
- Clear and understandable eligibility and appraisal criteria and procedures tailored to the specific needs of the fund. These procedures should be formally approved by the supervisory body;
- Good quality of project information delivered by the project applicant. Potential applicants must be informed in advance about all information requirements;
- Availability of information on the fund's project cycle to the public, e.g. through seminars, press conferences and assistance lines to better communicate the rules of assistance. Direct contact with potential applicants should be aimed at providing general information on procedures, encouraging them

to prepare and submit projects, which increases the fund's chances to get access to additional project proposals. Targeted visits to potential clients may also help improve understanding of the fund's operating procedures;
- Well designed and standardised application and appraisal forms;
- Professional staff capable of conducting project appraisal and selection. Discussions on a specific project with an individual applicant should be reduced to minimum, as such situations are prone to corruption and may raise incorrect expectations on the part of the applicant;
- Clearly divided and defined lines of responsibilities among technical staff, fund management and supervisory body. These should be laid down in the legal documents of the fund. Responsibilities should go hand in hand with accountability and liability for individual decisions[47].

4.3 Project identification and Application process

The application process through a standard application form is the most common way of identifying projects relevant for fulfilling the Fund's objectives.

The project identification process can be additionally strengthened by Fund's analysis of ongoing activities among all beneficiary groups and consultations with other national and international donors. For example, for new topics like climate change in the tourism sector it is advisable to carry out a needs assessment covering the main stakeholders' i.a. local authorities, tourism organisations, and associations, businesses etc. the needs assessment can be done in a form of a questionnaire.

There are two main options for choosing the most suitable application cycle: periodic applications (with deadline for applications) and ongoing application process (it is possible to submit applications throughout the year, without specific deadline).

The table below provides an overview of the main differences and purposes of the two application cycles.

Periodic application process	Ongoing application process (rolling basis)
- Based on competition (calls) with strict deadlines; - To encourage as many applicants as possible - A high number of applicants gives the broader basis for selecting the best projects; - Applications subjected to a common appraisal, ranking and selection procedure - Organised few times per year	- Better suited for more complex projects (thus requiring two stages appraisal; eligibility screening and appraisal); - Chosen to avoid the peaks in application process; - For projects which require longer project preparation;

Information about Fund priorities and application process should be disseminated periodically to all relevant potential applicants. Representatives of the Fund should participate in seminars, working meetings and other meetings to inform potential applicants about the fund priorities, assistance and application process.

The Fund web site is the tool which contains detailed information about financial conditions, appraisal criteria and application requirements.

Good Practice! *Support to ongoing projects*

[47] Based on Establishing an Environmental Fund. Practical aspects for Decision Makers and Fund Managers.

The Fund should have a strategy on how to proceed with applications of already on-going projects against new proposals. The international experience says that some Funds choose not to finance ongoing projects in order to avoid reinforcing the bad habit of launching the investment phase with poor project design and without adequate financing plans. Often, the large costs sunk in poorly designed, unfinished investments. The sunk costs should not influence the analysis of financial and economic viability of investment projects. Ongoing projects can be supported only if they are treated as new projects and evaluated with respect to future costs and benefits expected without considering past spending.

Standardised application form

The application form is a basic tool providing transparency on the type of information to be provided by the applicants. The application form should require all information which is necessary to conduct the application appraisal.

The main categories of information usually required in the application form are presented in the table below. It has to be noted that the application form can be designed only once all the Fund parameters, including eligibility and appraisal criteria are already defined.

Example of types of information to be provided in the application form	
General information	Name of project; name and contact data of the applicant (including a contact person); amount requested; project stage (e.g. project preparation; need for feasibility study, design etc. or investment phase; construction and implementation);
Description of the project	Background, location and the main activities Main objective of the project, main outcomes and outputs Context of the project; why it is needed, compliance with the Fund priorities; project compliance with the main national/ local policy priorities Involvement of the private sector
Implementation scheme and financial structure	Organisational set up of the project; setup of the project implementation unit; overall financial structure (sources of finance); total costs of the project share to be provided by the Fund
Indicative budget	Project costs; financing plan; investment leverage ratio;
Expected results	Results indicators (e.g. expected CO2 reduction) Other indicators (e.g. number of beneficiaries etc)
Project sustainability	To describe conditions under which the project will be sustainable when the grant support expires.
Risk assessment	Main risks of the project (e.g. political, economic, financial, social, environmental, other)
Project calendar	Main milestones of the project

Each application should be registered and given number. The Fund staff should have a computer based system for managing the information on received applications.

Project application form should be made available to the potential project proponents together with the instructions for its completion.

Comments and Conclusions

Application process is the main way to identify projects. It can be organised as a periodic or on-going process, depending on the needs of the Fund and administrative capacities. Information about the Fund priorities and application process should be disseminated widely to potential beneficiaries. The Fund should consider how to deal with applications for already ongoing projects. A standard application form is a basic tool providing transparency on the type of information to be provided by

the applicants.

Recommendations

- ⇓ Operational Steps: to choose the application cycle type
- ⇓ Operational Steps: to design a standard application form
- ⇓ Operational Steps: to develop a system for registering and numbering of project applications.

4.4 Project preparation

In general project preparation is a responsibility of the project proponent and Funds are not directly and substantively involved in this process. This "hands-off" approach helps to ensure impartiality when the project is later submitted to the Fund for appraisal.

Nevertheless, the practice shows, that some Funds, which encountered difficulties in receiving high quality applications take a more pro-active approach soliciting potential project proponents that the application will satisfy the eligibility criteria. Consultations may occur in various ways, telephone, email correspondence or personal meetings.

The preparations of good project proposals is a skill that needs to be developed among the most proponents. It is important that the Fund will play a positive role in this process being pro-active, flexible and effective since improving the standard of proposals is clearly beneficial for the efficiency and effectiveness of the Fund. However at the same time it is important for the Fund staff to retain a degree of objectivity in the way how they deal with proponents. It is possible to introduce:

- Systematic consultations process through which individual project proponents can obtain advice on specific aspects of proposal preparation;
- Organising workshops (outside the framework set by individual public calls) for potential beneficiaries to train them how to prepare proposals.

Considering the common problem in the lack of skills and knowledge in the preparation of good projects, the Fund might receive requests to provide support for project preparation. In such cases there is a risk of creating incorrect expectations on the part of applicants in which they take this support as a commitment by the fund to finance the project. In principle the Fund should not provide such assistance and should develop a clear policy for such cases.

Comments and Conclusions

As a general practice, project preparation is the responsibility of the potential beneficiary. Considering the common problem with the lack of skills and knowledge among the beneficiaries on preparation of good quality project applications the Fund should play a more pro-active role e.g. through launching systematic consultations for individual project proponents or organising workshops to provide training how best to prepare proposals.

Recommendations

⇓ Operational Steps: Develop rules for assisting potential beneficiaries in project preparation

4.5 Selection process/ project appraisal

The selection process requires adequate assessment of the technical, environmental, economic and financial aspects of the project that ensure that the most effective projects are financed.

The project appraisal process is one of the most sensitive areas of the project cycle management. Therefore it is important to demonstrate transparency in this process.

The appraisal procedures should be described in the relevant funding documents e.g. Statute, organisation and way of functioning of the fund.

In general there are two approaches to selection process; one stage appraisal and two stages appraisal. It is advisable to introduce a two-stages appraisal process for more complex investment projects.

Two stages appraisal process

In the first step an applicant submits a project description which contains all basic data on and the concept of the proposed project. The project concept is then checked against eligibility criteria and if eligible is passed to the next phase. The aim of the phase is to (1) reveal projects which have no change of fund financing (2) to identify as early as possible projects that might be eligible for financing but are not well prepared and would need further development.

In the second stage, the applicant prepares detailed project proposal based on a standardised application form prepared by the Fund.

In the first phase (eligibility check) the fund assesses the eligibility of a project against formal criteria. An example of an optimal package of eligibility criteria is presented in the table below:

Example of an optimal package of eligibility criteria

Criterion	Description
Consistency of project with fund objectives and priorities	A comparison of project objectives with fund objectives must be undertaken. Fund objectives should be clearly defined in terms of environmental media, sectors, regions, project types, beneficiaries, forms and levels of support. When listing regions for support, whether the eligibility is determined by the address of the applicant or by impact of the project should be stated.
Reliability and acceptance of expected environmental benefits	Expected environmental benefits together with assumptions and calculations methods are to be estimated. The benefits of reductions in e.g. CO2 emissions should be presented in quantitative terms (the year before and after the project). Lack of information, or vaguely presented information make the project ineligible. The fund might ask for additional information on environmental benefits based on similar projects implemented in the past.
Feasibility of proposed technology	The engineering maturity of the proposed project, especially regarding the question of whether the technology will provide a desired CO2 reduction effect must be checked. Proposed projects with inefficient technology should be rejected. New technologies unchecked in the country might also be a subject of concern. The fund may consult on such innovative technologies and support them as pilot cases.
Completeness and	A realistic project budget, correctness of the financial plan, and availability of planned

clarity of the financial plan and sources of financing	financial resources must be checked for. In cases of own funds, the fund should check documentation of these resources, and a financial plan showing a financing gap cannot be accepted. If a bank loan is used to cover the gap, the fund must check if the applicant can meet the bank requirements, as this will affect the profitability and associated capacity for return of the capital with interest. The fund should also analyse the project's financial viability in detail.
Compliance with legal requirements	Among others, the following should be checked: project compliance with mandatory environmental standards, national or international aid rules, obligation to pay environmental charges and compliance fees, permit availability, application of labour code rule and settlement of land ownership issues.

Based on: Establishing an Environmental Fund. Practical aspects for Decision Makers and Fund Managers. Working Paper. M.Aumer, G.Lamers and J.Fiedler. June 2006

In order to avoid rejecting potentially good projects (when applicant failed to provide all sufficient information) the Fund should have a mechanism to clarify all issues with the applicant before the final decision on the project is taken.

Assessment of project eligibility by technical body starts with checking the application forms for completion then the provided information is verified for correctness and reliability. The information provided should be up to date and describe project as of the submission date of the project questionnaire.

Common problems with quality of submitted information
- Applicants present excessively optimistic estimates of environmental/ climate change benefits; - Applicant present unjustified efficacy of the technology - Applicant present data on resources planned to be obtained by different financing institutions as awarded or recurred, while being at the application stage only.

Important elements to be checked by the technical body include:

- To cross - check information and data with results from similar projects;
- To cross-check whether Fund already received application from the applicant and ,if so, the subject and quality of the project;

Screening against eligibility criteria involves comparing the information provided in the project application form with the fund's eligibility criteria. The result of this process is the list of discrepancies between project objectives and fund priorities. The discrepancies are assessed and the final decision on the eligibility is made.

In both cases, when the project is decided to be eligible or ineligible, the applicant should be duly informed about the result. The reasons for rejection should be explained. In the case project is eligible the letter to the applicant should include an invitation to submit a complete application. The full standard application form together with the instructions on how to fill it in should be provided to the applicant.

Appraisal phase

In this phase the project is assessed against a number of agreed criteria and as a result it allows to compare and rank projects.

The most commonly sets of criteria used by environmental funds	
Environmental and technical criteria	The criteria allow an assessment of the project's environmental impact after its implementation - Impact of pollution source; the greater environmental improvements can be expected from larger projects. Assessment of the size and importance of pollutant sources is based on quantitative parameters that provide information about the degree to which pollutant loads are to be reduced. - Technical scope of the project; environmental effects depend on the project scope. It might include population of the area covered by the project; percentage of coverage in the municipality/region; size of the project; enlargement opportunities for future requirements and reference technologies and projects - Assessment of probability of achieving stated environmental effects; in several cases the environmental effects might occur only after implementation or after other phases/ elements of the project are concluded. The assessment should anticipate possible attainment of anticipated environmental effects later than the actual implementation period.
Economic criteria	It aims at determining whether the investment costs of certain tasks within the project are comparable to those actually observed in similar cases. It is usually done by comparing selected quantitative costs of different tasks against reference values. This method is useful where there are data on unit costs of similar tasks available. Indicators of unit costs should be comparable with the selected benchmark values. It is important to take into account regional differences in prices and technical conditions affecting project implementation. The economic criteria usually include: - Cost-effectiveness calculation: it identifies projects that have the lowest cost in meeting standards. - Financial viability: it shows whether the project is commercially viable or needs public support to be implemented.
Regional criteria	It serves to characterise and assess the impact of a project on a specific environmental component, determining if the project will have a major impact on the state of the environment in a specific region or protected area.
Organisational criteria	They allow assigning a higher rank to those projects that bring environmental benefits rapidly. A degree of progress in project implementation and time needed for completion are taken into account.
Readiness	This allows to rank higher projects which are ready to be implemented; obtained all necessary permits and have full technical documentation in place

Ranking of projects based on the agreed criteria must allow aggregating into one coherent, internally consistent methodological system that allows the fund to perform reasonable comparisons and make meaningful choices. It is a good practice to introduce numerical scores and weighs that could help to compare assessed projects. For ranking purposes, projects can be compared either against each other (true ranking) or against past projects and/or a benchmark (i.e. reference/model project).

Good Practice!	*Increasing transparency of selection process*
The following elements might increase the transparency of selection process: - Developing a formal, quantitative ranking system for eligible projects. The ranking system should take into account all aspects of the proposals and reflect the priorities of the Fund (e.g. climate change effects, cost-effectiveness, co-financing, economic sustainability, sustainability of technology etc) ranking system should not change often and should be communicated to the public in advance by specifying the criteria and their respective weighting in the documentation for each call; - Developing written procedures for the appraisal process including the rules of the ranking system, composition of the appraisal committee and their responsibilities. The procedures should be open enough to include when necessary opinions of external experts on topic specific proposals; - The final decision on funding a project should be taken by the executive body based on a	

recommendations provided by the technical/ appraisal body.

Comments and Conclusions
Selection process is the most sensitive area of project cycle management and its transparency must be clearly demonstrated. The appraisal process should be described in the relevant funding documents e.g. Statute. Depending on the complexity of projects a one-stage or two-stages appraisal process can be introduce. The appraisal consists with first checking the eligibility criteria and then prioritising/ ranking projects according to the agreed criteria and weights and scores. Project which received the highest score (and for which there is budget available) are recommended to the Executive Body to receive funding.

Recommendations

- ⇓ Operational Steps: to determine the eligibility criteria
- ⇓ Operational Steps: to develop prioritisation criteria and scoring system
- ⇓ Operational Steps: to describe the appraisal procedures to be followed by the Technical body while assessing projects
- ⇓ Operational Steps: to determine the most optimal appraisal system (one or two phases) based on the assessment of complexity of potential projects and administrative capacities of the Fund.

4.6 Approval process

Based on the assessment and prioritisation of project applications done by the Technical body, an Executive Body is responsible for making the final decision on financing. The Meetings of the Executive Body should be planned and linked to the deadlines for applications, allowing time for the technical body to make an assessment and at the same time to speed up the time needed for making the final decision.

The Executive Body decision can be taken by consensus or by majority. It is a political decision how the decision making process will be design, often reflecting the power of the individual members of the Executive Body. The principles of decision making should be clearly described in the document presenting the roles, responsibilities and operations of the Executive Body.

The Executive Body should also have a right (final say) to set conditions on financing of projects.

The Executive Body produces a report from its meeting, stating the choice of projects and the reasons for rejecting not successful applications. All proponents of projects are informed by the Fund management about the result of the application process.

Comments and Conclusions
The approval process is a responsibility of the Executive Body which approves projects based on the recommendation of the Technical body. The Executive Body has the final say on the choice of

projects as well as the conditions of financing. All project proponents should be informed about the results of the application process.

Recommendations

- ⇓ Operational Steps: to develop rules of operation and approval to be used by the Executive Body

4.7 Contracting Procurement disbursement

For all successful applications, a project coordinator, who will follow the project implementation, is determined. It is a good practice that project coordinator would visit the applicant to check that the situation is as described in the proposal. Of course this practice depends on the administrative capacities of the Fund.

For contracting, there should be a standard contract template, including general and specific conditions for funding. A template should be publicly available to all applicants prior to the application process.

The Rules of procurement should be set in the relevant Fund document e.g. Statute. The Procurement for a project funded by the Fund can be carried out by the beneficiary, and should be in compliance with the relevant Montenegro Laws

Disbursements, based on the agreed schedule of activities should be done only after the approval of the relevant narrative and financial reports (see chapter 4.9 on reporting).

Comments and Conclusions
Contracting is the responsibility of the Fund management. A standard contract template with general conditions of finance should be developed and made available to the potential applicants in advance of the application process.

Recommendations

- ⇓ Operational Steps: to develop a standard contract template with general financing conditions
- ⇓ Operational Steps: to determine the rules of procurement to be followed by the beneficiaries

4.8 Monitoring and evaluation of project implementation

There are two main types of project monitoring:

- Project implementation monitoring (first-level control)
- Post-implementation monitoring (second level control)

During project implementation monitoring a number of checks and measures are introduced to ensure proper monitoring and supervision and avoidance of costly failures at this stage. Main measures include:

- Assigning the responsibility for close and regular monitoring of a project's progress to a dedicated fund project coordinator. Project coordinator monitors the compliance and timely completion of the project in accordance with the schedule and conditions detailed in the agreement. Project coordinator monitors through on-site visits and analysis of project reports and supportive documentation. Financial monitoring should be conducted by financial experts and it requires verification of financial documentation. The fund should proceed with the disbursements only after the interim report including technical work done and related costs have been approved.
- Substantive verification of technical and financial documents;
- On-site visits;
- Preparation of interim and final reports by the beneficiary;
- Developing a policy to deal with changes in project costs both in terms of savings and costs overruns
- Continues monitoring during the operational phase of a project.

Good Practice!	*Dealing with changes in project implementation*
Delayed completion of an activity	To reduce the level of funding by the amount of the interest accrued due to the beneficiary's delay;
Fund's resources used for purposes other than those agreed upon	Should not be accepted unless the beneficiary informed in advance and the Fund agreed with the change. Any changes to the original contract should be included as new annexes to the financial agreement. Any new disbursement should be stopped until the situation is cleared up.
Implementing project tasks at a lower price	To apply a principle of an equal share of the benefits through retaining an equivalent percentage share of its committed support. Field checks should aim to verify congruence between declared and implemented technologies.
Cost overruns	As a principle the Fund should not agree to increase its support. For example in the Austria environmental support schemes, if the cost overruns are more than 15 % of the figures given in the initial application, the whole procedure must start again with the subsidy element lowered.

The project is considered completed after the fund has approved all of its tasks and achieved environmental effects. The final report should show that the equipment/ installation has been properly tested and is ready to enter its normal operation phase.

The Fund should develop clear rules for reporting on project progress. The project reports should be standardised and the beneficiaries should prepare the reports in a standard format. The Fund should also develop a policy for cases in which project costs change.

Post-implementation monitoring and evaluation evaluated project results. Evaluation reports should indicate all mistakes made and analyse the causes of the project success/ failure. Through the evaluation reports the Fund builds its capacity to improve future project cycle management.

Comments and Conclusions

Monitoring consist of two level controls; project implementation monitoring to ensure that the project is implemented according to the rules set in the contract and post-implementation monitoring which determines the overall results achieved by the project. Main elements of project implementation monitoring include: dedicated project coordinator who follows the project implementation progress, verification of technical and financial documents, on-site visits, project reporting. As changes in the project implementation might be expected to occur the fund should have clear rules developed how to deal with changes in project implementation.

Recommendations

- ⇓ Operational Steps: to develop project monitoring procedures
- ⇓ Operational Steps: to develop procedures for dealing with changes in project implementation

4.9 Reporting

Reporting on the Fund's activities includes reporting by beneficiaries on project implementation (technical and financial), Annual reports of the Fund activities and other reports.

Project reports

The project reporting provisions are embedded in the contracts signed with the beneficiaries. There should be standardised reporting template and associated guidelines on reporting for the beneficiaries. The reports (narrative and financial) are usually prepared on an annual basis. The most common information to be provided in the report include: overview of carried out activities in the reporting period; difficulties encountered, changes introduced, achievements, indicators of progress (stages of project implementation) indictors of results (output and outcome), and the work pan for the following period, financial progress, risks identified.

Progress with implementation can be measured by progress indicators mirroring the stage of project implementation (e.g. preparation, tendering, procurement, construction) while the results indicators measure progress against expected results (output/ outcome).

Information received in the project reports must be standardised in order to allow evaluation of the reports by the Fund staff, consequent approval or rejection of the report and/or to allow aggregation of reported results and reporting on results (see below results management framework).

Annual reports

Annual report is an important tool for communicating with stakeholders and providing valuable promotional material that will help to demonstrate the Fund's efficiency, transparency and objectivity.

Annual report includes a wide range of relevant information, relating to all aspects of the work of the Fund, including; summaries of funded projects, best practices, breakdowns of funded projects by topic and by geographic area, events organised by the Fund, summary of achieved targets against targets set in the Annual Programmes etc.

Annual report is usually prepared by the Fund staff (or by outsourced company based on the Fund's staff guidance and information inputs), according to the standard template and approved by the Executive Body.

The report should be prepared as soon as possible after the end of the calendar year, that information is up to date and relevant. The approved annual report should be also publicly available.

Other reports

Additional reports might be generated based on a request of the Executive Body o specific topics or on a request of donors contributing to the Fund revenues.

Results measurement framework

The results based framework, which is based on performance indicators, assists project stakeholders to verify if and to what extent expected results have been achieved. Results are measured for individual projects, while the framework comprises a set of indicators what allow an aggregation of the results and presentation on the level of the Fund.

The framework includes outputs and outcomes (Annex 9 presents the main definitions related to the results measurement framework) already defined in the application form. Impacts usually materialise only after the end of the project and are typically difficult and expensive to monitor and measure. Nevertheless, the assumptions of impacts can be made. The impact assumptions can be measured after a sample of projects is implemented, through a specific sample based evaluation.

In the context of the Fund objective – reduction of CO2 emissions the following table presents example of such indicator:

Indicator	Unit	Description
Relative (net) Greenhouse gas emissions impact	CO2 ktons eq / year	Average amount of GHG emissions induced, avoided, reduced or sequestered per year by the project during its lifetime or for a typical year of operation: net balance between gross emissions and emissions that would occur in a baseline scenario.

In the frame of the UNDP project Towards Carbon Neutral Tourism in Montenegro, an indicator is planned to be developed

Comments and Conclusions
There are two main levels of reporting to be implemented: project level reporting, which is the obligation of the beneficiaries and Fund level reporting, mainly in the form of annual reports, which is the obligation of the Fund's management. In order to measure the impacts of the Fund activities on CO2 reduction in Montenegro a results measurement framework has to be introduced and integrated within the project reporting to allow aggregation and presentation of results on a Fund level.

Recommendations

- ⇓ Operational Steps: to develop reporting provisions for beneficiaries to be annexed in the contract
- ⇓ Operational Steps: to develop guidance for the evaluation and approval of project reports
- ⇓ Operational Steps: to prepare a standard template for the Annual report
- ⇓ Operational Steps: to determine performance indicators (method of calculating CO2 reductions)

MODALITIES OF THE FUND:

FUND MANAGEMENT SYSTEMS AND PROCEDURES

5 Modalities of the Fund: Fund Management Systems and Procedures

5.1 Operational management

The main elements of the operational management include information management, procedures and the visibility of the Fund.

Information management includes a communication strategy with all potential stakeholders. The communication strategy defines also how the contacts with potential beneficiaries are structured. In general, all possible communication tools (press conferences, meetings, mailing lists, electronic and social media, and website) could be used to reach relevant potential beneficiaries and a wide range of stakeholders interested in the Fund's operations. While information should be spread as wide as possible, it should be very precise in order not to create over expectations and additional administration burden for the Fund's staff.

Internal information management should be based on a computerised database for registering projects. The basic information which should be included in the data base are: project number, date of registration, sector of project, applicant description, requested amount, co-financing rate, summary description of project, results of the achieved, results of the assessment and approval of projects, duration of the project, due dates for narrative and financial reports, approved amount of funding, actual disbursed amounts etc. covering all stages of project cycle management. It is important that the data base should be sortable in order to quickly extract relevant statistics about the application process or/and about the profile of supported projects.

Procedures of the Fund should be described in a relevant document (e.g. Statute, Organisation and Way of Functioning etc.) the procedures cover all standard elements of project cycle including: project identification, project preparation, project appraisal and selection, ranking system, appraisal method, contracting and procurement, monitoring, reporting by the beneficiaries and evaluation of project implementation. It is important that the procedures of the Fund will be approved by the relevant executive body and made available to the public e.g. posted on the web site.

Basic tool of the **visibility** of the Fund's activities is the Fund website. The website should be an interactive tool, with a professional design, regular updates, uploads of all relevant documents, procedures, funded project activities and reports. The website can be also a good tool to promote success pilot projects in new areas of assistance to develop capacities and to encourage further applications.

The best tools to promote the visibility of the Fund are: seminars, workshops, and information sessions for targeted audience, press conferences, promotional materials such as leaflets, newsletters.

A basic tool providing an identity of the Fund is Fund's logo.

Implementation of ***visibility provisions on a project level*** includes provisions stated in the individual contracts to be fulfilled by the Fund beneficiaries. The written and visual identify of the Fund should

be ensured for all projects financed by the Fund. The main commonly used visibility provisions include:

- All projects should include information that the project was carried out "with funding from the Fund" and to display a logo of the Fund;
- All publications of the beneficiary should include information on funding received from the Fund
- The Fund should be informed about all communication activities done by the beneficiaries to promote a project.

Comments and Conclusions
Elements of operational management ensure efficient operations of the Fund and quality information management as well as clear and transparent procedures.
The visibility of the Fund can be stimulated by a web site, reports, organising Fund events etc. Projects financed by the Fund should have visibility provisions embedded in the contracts.

Recommendations

- ⇓ Operational Steps: to develop a communication strategy with stakeholders
- ⇓ Operational Steps: to design and make operational the Fund website
- ⇓ Operational Steps: to design the data base for project registering
- ⇓ Operational Steps: to develop operational procedures of the Fund
- ⇓ Operational Steps: Procedures of the Fund approved by the Executive Body
- ⇓ Operational Steps: to design the logo of the Fund
- ⇓ Operational Steps: to develop standard visibility provisions to be fulfilled by the beneficiaries on a project level

5.2 Financial management and reporting systems

Depending on the overall legal status of the Fund and the level of the dependency from the Ministry, The Fund might have a separate account in the bank, if its account is part of the Treasury.

The staff (or unit) responsible for financing and economic aspects of the Fund operations performs usually two main types of tasks:

- Evaluation and control of economic and financial parameters of projects (including project applications, project evaluation, tenders, contracting)
- Manages the financial accounting of the Fund.

The financial management of the Fund should any time be able to provide detailed information on Fund's incomes, expenditures and cash flow. The overall budget (e.g. annual) and financial targets (e.g. annual) are prepared periodically and are endorsed by the Executive body. The financial reports of the Fund should be also presented to the Executive Body for approval periodically e.g. every three months.

The financial reporting sheets should show a pattern of expenditures of the Fund, especially a share between the administration expenditures and provided assistance (e.g. grants). A typical share of

administration costs of funds in Europe is between 10 – 20%. It is important that the Fund will work on increasing the portion of its budget disbursed as assistance and decreasing administration costs.

Financial data relating to projects should be recorded and maintained in a computerised form.

The Fund should be audited by an independent auditing company. Such audits are the most appropriately carried out annually. The audit statements should be part of the transparency procedures of the Fund and therefore made available to the public.

In the case the Fund will be channelling external resources e.g. donors, there might be a need to prepare separate financial statements according to the donor's requirement.

As part of the administration, the Fund might be also a subject of periodic audits by the State Audit Institution.

Comments and Conclusions
The financial management of the Fund is responsible for the overall financial accounting of the Fund and often by contributions to the evaluation and control of economic and financial parameters of projects.
A computerised data base of project and accounting system should be in place.
The financial unit (staff) is also responsible for preparing periodically budgets and financial reports. These documents are presented to the Executive body for approval.

Recommendations

- ⇓ Operational Steps: Opening of the Fund's account
- ⇓ Operational Steps: Design of the templates for Fund's budget and financial reports to be approved by the Executive body
- ⇓ Operational Steps: Purchase of computer based accounting system and data management systems
- ⇓ Operational Steps: Develop procedures for the financial unit operations.

5.3 Personnel management

Management of the staff is the responsibility of the Director. The Director is also responsible for the appointment and termination of Fund's employees. The Executive body is usually in charge of appointment of the Director.

All staff positions should have written job descriptions. The procedures for employing the staff should include: duration of the probation period, length of appointment, procedures for termination, salaries and benefits, training options etc.

In the case the Fund will be a unit in the Ministry, the Ministry rules for employment might adhere.

The main types of competencies needed for the Fund operations are presented in the table below

Type of competence	Description
Management	Director/ deputy Director: overall responsibility for the Fund management and operations, staff management, fulfilment of the Fund's objective, accountable to

	the Executive Body.
Technical	Technical experts: technical competences related to the Fund's fields of operations; technical assessment of projects and supervision of projects implementation;
Administrative	Secretaries/ assistants; providing administrative support to the Fund's operations; data registers of projects; ll support and administrative aspects,
Financial	Financial experts/ accountants; responsible for the overall finances of the Fund and accounting for expenditures on individual supported projects.
Communication	Communication expert/ support responsible for preparing the communication tools and the content of the Fund's messages to the public

Separation of competences

The competences of persons working in the fund must be clear in order to provide a transparent controllable picture and it is also an important weapon against corruption. When designing the fund it must be borne in mind that some tasks given to staff members shall not be merged in the same institution or done by the same persons. For example, merging strategy, appraisal and approval leads to a situation where the strategy follows the needs of a smooth approval.

The table below provides an example of compatibility check defining which tasks can be merged into one administrative unit and which tasks should be kept separately[48].

	Submission and Information	Formal appraisal	Technical appraisal	Financial appraisal	Administration unit	Consultations with different stakeholders	Approval	Contracting	Disbursement	Control	Reporting	Data management	Strategy and guiding the process
Submission and Information		**YES**	**YES**	**YES**	**YES**	**NO**	**NO**	**YES**	**YES**	**NO**	**YES**	**NO**	**NO**
Formal appraisal			YES	YES	YES	NO	NO	YES	YES	NO	NO	YES	NO
Technical appraisal				YES	YES	NO	NO	YES	YES	NO	NO	YES	NO
Financial appraisal					YES	NO	NO	YES	YES	NO	NO	YES	NO
Administration unit						NO	NO	YES	YES	NO	NO	YES	NO
Consultations with different stakeholders							NO	NO	NO	YES	YES	NO	NO
Approval								YES	YES	NO	NO	NO	YES
Contracting									YES	NO	NO	YES	NO
Disbursement										NO	YES	YES	NO
Control											NO	NO	NO
Reporting												YES	NO
Data management													NO
Strategy and guiding the process													

Once the competences needed for the Fund staff have been identified, they should be drawn into an organogram showing the hierarchy.

Last but not least, rules for staff training and capacity building should be determined. It can be expected that since the topic of the Fund assistance is a relatively new issue in the country, the staff

[48] Taken from Establishing an Environmental Fund. Practical aspects for Decision Makers and Fund Managers. Working Paper. M.Aumer, G.Lamers and J.Fiedler. June 2006

would need a continuous support in building its capacities. In addition, public administration has also a limited experience with such financing instruments; therefore a support in the first phase of operations might be needed. It is a good practice to second an expert (national or international with relevant experience) for the first months of the Fund's operations to provide necessary guidance.

Comments and Conclusions

In order to have an efficient and effective personnel management, needed competences for Fund functioning need to be identified and clearly described. The hierarchy between the staff is presented in the organogram. The guide for employment describes all main issues related to the launch of employment, its duration and rules for termination.

A special attention should be paid to the training and capacity building of the staff.

Recommendations

To consider to second an external expert with the experience working inside similar Fund to provide necessary support in the first months of the Fund's operations.

- ⇓ Operational Steps: to prepare an organogram of the Fund positions and hierarchy
- ⇓ Operational Steps: to prepare clear job descriptions for all staff positions
- ⇓ Operational Steps: to develop a guide for employment conditions; including procedures for commencing and termination of employment, probation period, evaluation of the performance, training, benefits and remuneration etc.

5.4 Control

Control measures have to be designed for all levels of the Fund operations. Control increases the efficiency of operations, builds the trust for potential contributors to the Fund (e.g. bilateral donors) and increases the transparency of the Fund's operations.

Example of the control measures between various levels of the Fund operations are presented in the table below.

Inner circle of the Fund (controls done within the Fund's structures)	Outer circle of the Fund (controls done by extremal experts)
- The four-eye principle must be established for every single decision; - The applicant must be checked by the payment authority on a regular basis and by the strategic unit in 5 to 10 percent of cases; - The appraisal unit must be checked by the strategic body regarding the compliance with rules and procedures on a 5 to 10 percent basis by an external unit (auditors) - The entire project cycle, should be controlled by an external unit on a three to five year basis	- The results and strategy should be evaluated by an external unit on a three year basis and with aggregated data - The control unit should be controlled on an annual basis by auditors or external units.

In the case additional funds would be channelled through the Fund, it has to be taken into account that the bodies responsible for the funds, might require specific for them control measures to be conducted in addition to the regular Fund's control procedures.

Overall, transparency of the Fund operations is a result of a combination of measures introduced to all levels of Fund activities. Examples of methods, based on international practice, are presented in the box below.

Good Practice!	*Methods of increasing transparency in Fund's operations*

- Clear funding rules and decision criteria, published eligibility criteria, and reports on implemented projects;
- Making information available to the applicant regarding proposed funding conditions or reasons for rejection;
- Documentation and justification of every single decision;
- Published results of the appraisal process;
- Model funding contracts in order to avoid surprises after approval e.g. a project which cannot fulfil funding obligations or payment rules;
- Published final reports of a project;
- All decisions for granting money prepared according to regular procedures;
- Division of project appraisal ad project decision;
- Project appraisal done by an independent entity, which must adhere only to given rules;
- Implementation of the "four-eyes principle" on all levels – all relevant decisions should follow this principle on a personal level (i.e. two signatures on each letter) and on an organisational level (all decisions of an institution must be signed and controlled by the next level)
- Division of the decision making process into defined steps, each finalised by a written report of recommendations or decisions, with procedural steps assigned to different organisational units;
- The entire fund i.e. the decision making process and implementation of contracts, must be audited comprehensively according to international standards (see the Council of Europe Criminal Law Convention on Corruption, January 27, 1999)
- Main responsibilities determined in a formal act, thus preventing opportunistic assignments of responsibilities;
- A system of account statements included in a report to e.g. Parliament must be implemented to allow broad supervision of operations.

Based on Based on Establishing an Environmental Fund. Practical aspects for Decision Makers and Fund Managers.

Comments and Conclusions

Control measures constitute a basic practice to increase the transparency of the Fund's operations and to minimise the potential risk of mistakes and possible cases of corruption.

Recommendations

The Fund's Operational Manual should include a chapter on control measures for the Fund's operations, specifying which unit and in which form should execute controls and in which way (the procedure) the results of the control should be discussed and taken into considerations

⇓ Operational Steps: to design control system including procedures and responsible units.

6 Preconditions for the establishment of the Fund

This chapter presents the main pre-conditions for establishment of the support mechanism for carbon reduction in the tourism sector. The main pre-conditions include:

- ***Working Group on establishment of the support mechanism***; as the first step to accelerate and to facilitate the process of establishment of the Fund a Working Group should be established comprising of the main stakeholders from the national authorities, municipalities, tourist organisation, tourism associations, UNDP and other interested stakeholders. Together with the Working Group establishment, the lead Ministry should appoint a coordinator who would lead the work of the Working Group.
- ***Policy attachment***; whichever of the models of the Fund will be chosen, the mechanism has to demonstrate clear objective linked to achievement of objectives of relevant national strategies. Currently, the review of the strategic context provides little justification for establishment of a separate legal entity.
- ***Capacity Building***; as highlighted by all stakeholders, the topic of carbon neutrality is very innovative and new for the tourism stakeholders. Establishment of the Fund has to be complemented by a major capacity building effort in order to increase the success of the proposed financing schemes. One of the main areas of capacity building is related to presenting the costs and benefits of carbon reduction projects for the tourism sector. In this respect pilot projects can play a very useful role.
- ***Competitiveness;*** integrating climate change aspects in the tourism sector has to take into account the balanced approach for the sector to increase its competitiveness and at the same time to contribute to CO2 emission reductions.
- ***Think big – start small***; the analysis of the potential sources of revenues shows that there is a need to adopt a gradual approach (over the next years) towards mobilising various sources of finance.
- ***Sustainability***; predictable financing over a long term should be available for the potential applicants. In the case of lack of long term financing only small non-complicated projects should be supported.
- ***Integration in the overall financing system***; the Fund has to be well integrated in the overall financing system, especially complementary to other financing mechanism to provide a solid and comprehensive offer to the potential applicants.

7 Operational steps for Operational Steps establishing the NCTF

The operational steps for establishment of the NCTF presents an overview of tasks to be accomplished for effective and efficient operations of the Fund. It derives from the modalities of the Fund described in chapter 4 and 5.

It is assumed that the establishment of the support mechanism will start in 2016 year.

Task	Year (2016, 2017, 2018… and beyond)
Develop rules for assisting potential beneficiaries in project preparation	2017

Develop long term financing strategy	2016
Develop a template for yearly spending programmes	2016
Develop the yearly spending programme for the first year of operation	2017
To choose application cycle type	2017
Design standard application form	2016
Develop a system for registering and numbering of project applications	2016
Eligibility criteria	2016
Prioritisation criteria and scoring system	2016
Appraisal procedures	2017
Choice of appraisal system (one or two phases)	2017
Rules of operation and approval by Executive Body	2017
Standard contract template with general financing conditions	2017
Rules of procurement (to be used by beneficiaries)	2017
Project monitoring procedures	2017
Procedures of dealing with changes in project implementation	2017
Control system procedures (the procedures can be design only after all the operations and levels of responsibilities had been clearly divided)	2018
Organogram of the Fund staff	2017
Job descriptions for all staff members Guide for employment conditions	2017
Employment of staff	2018
Opening of the Fund's account	2018
Design of templates for Fund's budget and financial reports	2017
Purchase of computer based accounting system	2018
Develop procedures for the financial unit operations	2017
Communication strategy with stakeholders	2017
Website of the Fund	2017
Data base for projects' registrations	2017
Operational Procedures of the Fund	2017
Approval of Operational Procedures of the Fund (By the Executive Body)	2018
Logo of the Fund	2018
Develop standard visibility provisions (To be annexed to all contracts signed with the beneficiaries)	2018
Reporting provisions for beneficiaries (To be annexed to all contracts signed with the beneficiaries)	2017
Guidance for the evaluation and approval of project reports (To be used by the Fund staff)	2017
Standard template for the Annual report	2017
Performance indicators (Method of calculating CO2 reductions)	2017

List of Meetings

Mission 29th June – 3rd of July

Date	Stakeholder
29.06	UNDP Center for Sustainable Development – introductory meeting
	The Ministry for Sustainable Development and Tourism; Olivera Brajovic, Director General in Directorate for Tourism Development and standard Bozo Vucekovic, Division for standards in tourism sector Brankica Cmiljanovic, Head of the Directorate of the harmonization of EU regulations and Horizontal legislation Anja Amidzic, Advisior for the investment project in Department for international cooperation Zeljka Radak Kukavicic, Director of the National Touristic Organization
30.06	Airports of Montenegro/ Montenegro Airlines Mileta Lekovic, Quality Management System Manager , Airport of Podgorica Darko Abramovic, Operation Manger, Montenegro airlines
	Ministry of Economy – Energy efficiency department Dragica Sekulic, General Director of Directorate for energy efficiency Bozidar Pavlovic, Advisor, Directorate for energy efficiency
01.07	Tivat and Herceg Novi municipalities Tatjana Jelic, Secretary of the Secretariat for the spatial planning and environment protection, municipality of Tivat Petar Vujovic, Advisor of Vice president for economic development and international relation, municipality Tivat Biljana Krivokapic, advisor for environment, municipality of Tivat Sasa Kovacevic, advisor in the Secretariat for environment protection, municipality of Herceg Novi
	Porto Montenegro Danilo Kalezic, PR Manager Porto Montenegro
02.07	Cetinje municipality Drazen Blazic, municipality of Cetinje
03.07	The Ministry of Finance Tamara Garcevic, Chief of Directorate for budget Mihaijlo Pejovic, Chief of Directorate of state treasure Slobodanka Buric, Chief of public investment and capital budget in Directorate for budget
	The Ministry of Sustainable Development and Tourism – mission summary meeting Brankica Cmiljanovic, Head of the Directorate of the harmonization of EU regulations and Horizontal legislation
	UNDP – Center for Sustainable Development – summary meeting

Mission 14th – 16th of September

Date	Stakeholder
14.09	UNDP Center for Sustainable Development – review meeting Aleksandra Kikovic, Programme Manager Ana Pajevic-Tosic, Project Coordinator Ratka Stijepovic, Legal expert Victor Subotic, Project Coordinator Radica Zekovic Nikolic, PR/Project Coordinator Diego de Velasco, international expert – carbon offsetting Joanna Fiedler-Morotz, International expert
	The Ministry of Sustainable Development and Tourism and National Tourism Organization Ana Todorovic, Advisor, Sector for tourism development and standards Biljana Bozovic, Assistant, National Tourism Organization Aleksandra Kikovic, Programme Manager Ana Pajevic-Tosic, Project Coordinator

	Diego de Velasco, international expert – carbon offsetting Joanna Fiedler-Morotz, International expert
	National Investment and Development Fund (IDF) Zoran Vujovic, Assistant director Nikola Milosavljevic, loans and guarantees service Aleksandra Kikovic, Programme Manager Ana Pajevic-Tosic, Project Coordinator Joanna Fiedler-Morotz, International expert
15.09	Meeting with representatives of the tourism industry (Budva) Petar Ivkovic, Executive Director of the Cipa travel agency Zlatibor Milic, Chief of the Sector for hotels, Montenegrin Tourism Associations Aleksandra Kikovic, Programme Manager Ana Pajevic-Tosic, Project Coordinator Diego de Velasco, international expert – carbon offsetting Joanna Fiedler-Morotz, International expert
	Management of Budvanska Rivijera Hotels Group Katarina Kazanegra, Acting Executive Director, Budvanska Rivijera Ana Pajevic-Tosic, Project Coordinator Diego de Velasco, international expert – carbon offsetting Joanna Fiedler-Morotz, International expert
	Coastal Zone Management (CZM) (Budva) Aleksandra Ivanovic, Chief of the Sector for sustainable development, Costal Zone Management Nemanja Malovrazic, Advisor, Costal Zone Management Ana Pajevic-Tosic, Project Coordinator Diego de Velasco, international expert – carbon offsetting Joanna Fiedler-Morotz, International expert
16.09	EBRD representatives Vasilije Jaukovic, Associate Banker Aleksandra Kikovic, Programme Manager Ana Pajevic-Tosic, Project Coordinator Joanna Fiedler-Morotz, International expert
	EC European Delegation Sladjan Maslac, EC European Delegation Ana Pajevic-Tosic, Project Coordinator Joanna Fiedler-Morotz, International expert
	Commercial Bank: Hipotekarna Banka Ana Golubovic, Head of Corporate Department Hipotekarna Banka Ana Pajevic-Tosic, Project Coordinator Joanna Fiedler-Morotz, International expert

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ANNEXES

Annex 1 Overview of examples of countries' strategies

Country	Response
Australia	Tourism and Climate Framework for Action (2008) states that short and medium term actions are required to position the tourism industry to adjust to a carbon constrained future, including reducing emissions to minimise increasing costs associated with the introduction of a carbon price. The National carbon footprint for the tourism sector was estimated. A carbon price (carbon tax) was introduced in 2012 and was exchanged to a transition to an emissions trading scheme in 2014 – 2015, where available permits will be limited in line with a pollution cap. The main mitigation policies also relevant for tourism sector include: - The mandatory disclosure of the energy efficiency rating of commercial buildings; - Renewable energy policies to encourage the take up of renewable energy. Under the Small RE scheme, small tourism businesses were assisted with the installation of eligible renewable energy systems. - The Australian Carbon Trust manages two initiatives; (1) the Energy Efficiency Trust (to demonstrate the innovative approaches to energy efficiency investment, including tourism sector and (2) the Carbon Neutral Program which certifies products or business operations as carbon neutral, based on the National Carbon Offset Standard.
Austria	The national emissions reduction strategy outlines the need to develop sustainable mobility in tourism. It introduces a number of measures relevant for tourism. The national adaptation strategy also includes measures relevant for tourism: giving priority to action on incentives for climate-friendly products, "soft mobile tourism", reducing energy demand and promoting climate friendly heating systems. It focuses on integrating climate impacts and sustainable adaptation into the relevant tourism strategies. Main initiatives introducing soft mobility in tourism include: - Alps mobility II – developing and implementing the transnational product Alpine Pearls - Alpine Awareness promoting environmental friendly travel, based on public transport.
Canada	A carbon tax was introduced by Provincial governments in British Columbia, which is also relevant for the tourism sector.
Egypt	"The Green Sharm" initiative launched by the Ministry of Tourism is designed to position Egypt as a global pioneer in the holistic greening of tourism destinations. The initiative aims at reducing emissions but also to address coastal erosion and the degradation of coral reef. The Ministry of Tourism identified specific targets under the Realistic Green programme; they include: - Reduce destination-related emissions by 36% compared to business as usual - Reduce hotel energy consumption per guest night by 13% - Reduce water consumption per guest night for existing hotels by 13% and for new hotels by 28% - And other. Eco-tourism is seen as a future model for tourism development, and there are options for local and international fund raising.
Estonia	The overall goal of the Estonian National Tourism Development Plan is to ensure the competitive and sustainable development of the Estonian tourism sector.

France	Based on national consultations under Environmental Round Tables to discuss the counties response to climate change the tax system was restructured. Tax measures focused on providing incentives for pro-environmental behaviour by creating new subsidies, such as the extension of the assessment basis for the sustainable development tax credit, zero interest rate eco-loans, or tax exemptions for private individuals who install photovoltaic solar panels. For polluting activities eco-tax on heavy duty vehicles was introduced and the bonus-malus scheme for new cars. A carbon tax was introduced in 2013.
Germany	Measures of the energy and climate programme are relevant for the tourism sector. The auctioning of certified emission reductions to German industry generates funding. A specific campaign to reduce emissions in tourism was the energy efficiency campaign in German hotels and restaurants.
Ireland	The National Tourism Development Authority presented a strategy in 2008 to deal with climate change. It focused on the following measures: - Assess the impact of climate change on the tourism industry - Assess the impact on tourism of any measures proposed to tackle climate change - Contribute to the government's Change campaign - Measure and reduce the carbon footprint of the tourism industry - Communicate the challenges to the industry and raise awareness - Offer to visitors a low-emissions choice There is a Vehicle Registration Tax and an Annual Motor Tax entirely based on CO2 emissions. They encourage a switch to greener, more environmental friendly vehicles. Government incentives include investments in energy saving technology, which extended its budget to include catering and hospitality equipment. The Energy Efficiency Retrofit Fund for the public and business sector supports energy efficiency investments in upgrading existing buildings and facilities. The Tourism authority supports the establishment of the environmental standards for the various sectors of the tourism industry and published annual guide containing advice regarding auditing, training and accreditation to reduce consumption of energy and water.
Netherlands	The Ministry of Economic Affairs, which is in charge of tourism promoted the Green Key as an ecolabel for hotels and congress centers.
New Zealand	The Tourism Energy Efficiency Programme provides practical assistance for tourism businesses in the accommodation and transport sectors to reduce their electricity consumption, fuel consumption and carbon emissions. The Ministry of Economic Development provided funding for the Sustainable Tourism Advisors in Regional Project. Qualmark is the country quality assurance programme for tourism. It introduced mandatory minimum criteria for responsible tourism. It also introduced an Environmental Scheme (Enviro-Gold, Silver or Bronze which recognises businesses that perform well against the range of responsible tourism criteria (energy efficiency, waste management, water conservation, conservation and community). Qualmark also introduced a tourism-specific carbon calculator.
Norway	The Norwegian government has three political targets: - Norway will be carbon neutral by 2050 - Norway will undertake to reduce global GHG by the equivalent of 30% of its own 1990 emissions by 2020 - Norway will strengthen its Kyoto commitment by 10 % points corresponding to 9% below the 1990 levels.

	Norwegian taxes are linked to GHG emissions e.g. CO2 tax.
Poland	The Document on Directions for Tourism Development until 2015 considers GHG emissions reductions in several areas e.g. developing appropriate tourism infrastructure taking into account emission standards or integrated branded tourism products that consider energy efficiency and resource consumption.
Portugal	A sustainability report is produced since 2008 by the National Tourism Organisation.

Based on Climate Change and Tourism Policy in OECD countries 2011

Annex 2 Overview of best practices in financing climate change and environment through Environmental Funds

Croatia

The Environmental Protection and Energy Efficiency Fund (EPEEF) is the main mechanism for collecting and investing extra budgetary resources in the programmes and projects of environmental and nature protection, energy efficiency and use of renewable energy sources. The Fund is also performing the function of intermediate body for the EU structural instruments in Croatia. The activities of the Fund include:

- expert and other tasks in relation to the collection, management and utilisation of the Fund's resources;
- acts as an intermediary in the matters related to the financing of environmental protection and energy efficiency from foreign funds, international organisations, financial institutions and bodies, as well as national and foreign legal and natural persons
- maintains the database of programmes, projects and similar activities
- promoting, establishing and carrying out cooperation with international and national financial institutions and other legal and natural persons for the financing of environmental protection and energy efficiency in accordance with the National Environmental Strategy and the National Environmental Action Plan, the Energy Development Strategy etc.

Annual charge on GHG emissions

Persons liable to pay the annual charge on GHG emissions are legal and natural persons who as part of their activity own or use a single point source of emissions of CO2 for which the GHG emissions permit was obtained, and which is under the decision issued excluded from the emission allowance trading system.

The sources of revenues from the pollution charges include e.g. charges on polluters of the environment for emissions into the environment and a special annual charge for GHG emissions. The charges for emissions include Co2, SO2 and No2 emissions to be paid by legal and natural persons who as part of their business activity, own or use a single point source of emissions.

The sources of funding projects are a combination of dedicated funds secured from charges on

Energy efficiency measures in the building sector include

- energy audit of the building and energy performance certificate (EPC) which shows the energy efficiency class of the building
- increasing thermal protection of the building
- increasing performance of the heating, cooling and ventilation systems
- increasing performance of the lighting systems and electrical equipment
- use of the renewable energy sources

polluters of environment, users of the environment, burdening the environment with waste and environmental charges for motor vehicles and the revenues may be generated from:

- the budgets of the units of local and regional self-governments in accordance with the common programmes;
- revenues generated from international bilateral and multilateral cooperation on programmes;
- revenues and inflows from managing free financial assets of the Fund;
- donations etc.

Assistance provided (grants and loans) for energy efficiency includes the following fields:

- building sector; the Fund is implementing energy retrofit programmes by co0financing energy efficiency measures in buildings, with a view of reducing Co2 emissions. The programmes are tailored to specific stakeholders; programme for energy renovation in (1) family houses (2) multi-residential buildings (3) non-residential commercial buildings (4) public buildings.
- **Renewable energy sources**: the Fund co-finances the purchase of RES systems to citizens, companies, units of local and self-government and other institutions.
- cleaner (green transportation); the Fund co-finances measures for enhancing energy efficiency in transportation through the following programmes (1) co-financing the purchase of electric, plug-in hybrid vehicles for citizens, companies and trades (2) co-financing of eco-driving training (3) co-financing other measures for energy
- public lighting; the Fund has co-financed 31 energy efficiency projects for the public lightning systems and the Fund has also co-financed public lighting by public institutions and other extra-budgetary beneficiaries that own public lighting systems and preparation of the final/ detailed design for the reconstruction/ construction of environmentally –friendly and energy efficiency public lighting systems is also co-financed.
- energy efficiency projects in industry; co-financing is mainly provided for performing energy audits, certification and introducing energy management system ISO 50001
- education: support to various educational, research and development activities including educational and information campaigns for different groups of beneficiaries – citizents, representatives of the business and public sectors etc.

The Public Call for co-financing RES projects solely in the tourism sector

A special Public Call for co-financing RES projects solely in the tourism sector was opened in January 2015 of a value of around EUR 1.7 million. The programme is intended to promote the use of solar power in camps, to promote investment in solar thermal systems and to increase the efficiency of cooling systems in hotels and other tourist facilities. Small hotels and resorts are also eligible for assistance to use solar thermal systems. It is estimated that investment in the solar systems in camps can return on investment in the solar systems in camps pays off after only 5-6 years, having regard to the regime of domestic hot water use. systems and electrical equipment

- use of the renewable energy sources

Source: http://www.fzoeu.hr

Czech Republic

The State Environmental Fund of the Czech Republic provides financial support in the form of subsidies, loans and contributions to partial interest coverage. The sources of revenues include: the EU funds from the Cohesion Fund, ERDF; from the State budget and fees collected from polluters (e.g. waste water discharge fees, fees from reclassifying agricultural land, air pollution fees and fees under the Act on Waste).

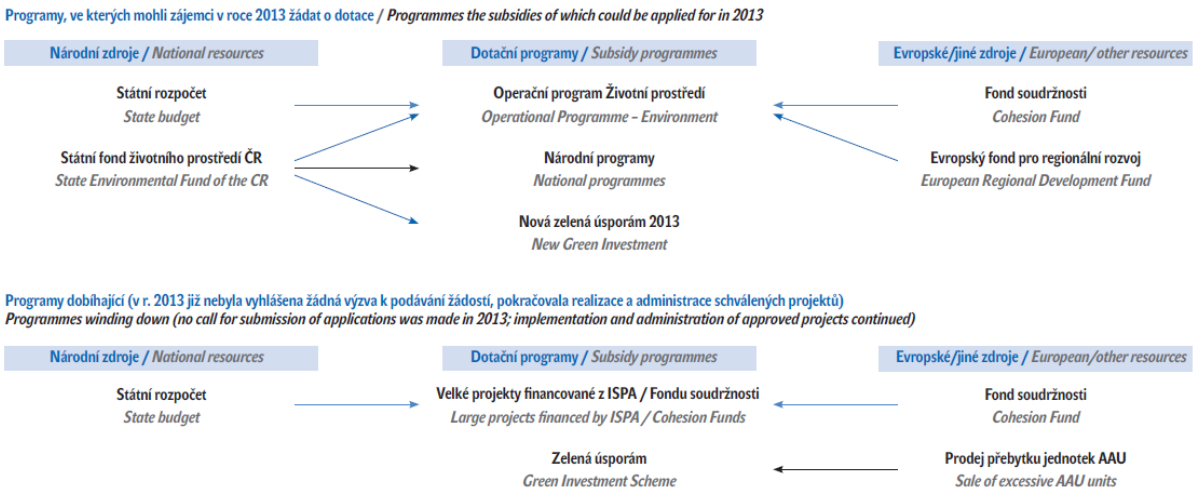
The Fund's activities include; providing consulting and advisory services, receiving and evaluating aid applications, preparing groundwork materials for approving aid and the contractual agenda for providing assistance, distributing financial resources to the beneficiaries, auditing, evaluation, occasionally imposing and enforcing sanctions in cases of non-compliance with the contractual conditions for granting aid.

Example of programmes under operation in 2013 are presented below

Green Savings Programme

The programme focuses on supporting environmentally sound methods for producing heat and hot water for households, reducing the energy intensity of residential buildings (comprehensive or partial thermal insulation) and construction of passive houses. The financial resources for the programme were obtained through selling the emission credits under the Kyoto protocol on reducing GHG emissions.
Assistance was provided to individuals, associations of flat owners, housing cooperatives, towns and municipalities, including town districts, businesses and other legal entities.
The specific objectives of the programme were:

- reducing CO2 emissions by 1.1 tonnes, i.e. by 1% of all Czech emissions and reducing particulate matter pollution by 2.2 million kg;
- reducing the amount of heat required for heating by 6.3 PJ (i.e. heating cost savings for households amounting to several billion crowns a year) and increasing heat production from renewable energy sources by 3.7 PJ;
- creating or maintaining 30,000 jobs;
- improving the housing conditions for250,000 household.



Source: www.sfzp.cz

Estonia

Environmental Investment Center (EIC) was founded in 2000 by the Ministry of Finance. The main activities of EIC are to channel the proceeds from the exploitation of the environment into environmental projects, to perform as the implementing agency for the environmental projects funded by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF) and to lend money for the implementation of environmental projects. Since 2010 EIC is also acting as the implementing agency for the Green Investment Scheme. EIC grants and loans are financed from fur separate sources: the environmental fees, the EU structural funds, the EIBs loan to the Estonian State and the sale of Estonian CO2 quotas. The financing of the main activities has changed over the years – in the early years EIC awarded grants mostly from the Estonian State funds, in recent years the volume of foreign aid projects has reached the same level. The resources distributed through EIC are described under the Environmental Programme which consist of ten areas; fishery, water management, waste management, nature conservation, forestry, environmental management, earth's crust and marine environment.

The EIC is the implementing agency for the environmental projects supported by the EU funds; from the Cohesion Fund large scale transport and environmental infrastructure projects are supported especially drinking water, wastewater and waste management projects; under the ERDF, the main areas of support include the nature protection and environmental education infrastructure, the development of supervision and monitoring, the improvement of preparedness for emergencies and renewable energy; under the ESF support is provided for the substantive development of environmental education. The role of EIC is to check the quality of applications and evaluate their conformity with the financing requirements, inspecting the expense documents and analysing the results of projects in order to ascertain the purposeful use of the funds.

The loan from EIB is used to ensure the liquidity of entrepreneurs and local governments in the implementation of large scale environmental projects.

Estonia has been very successful in utilising the Green Investment Scheme. Twenty one deals have been concluded for the value of EUR 388 million. The measures supported include:

- the wider use of renewable energy sources for producing energy;
- the wider use of renewable energy sources for producing energy and enhancing district heating networks
- support for the investments of electricity producers who use wind as an energy source
- street lighting reconstruction programme

Since 2014 EIC started support on the energy and resource efficiency measure that is more directly aimed at the company sector. The measure foresees the distribution of 109 million euros to fund approximately 500 projects. It is planned to be launched in 2016.

Source: http://www.kik.ee

Poland

The National Fund for Environmental Protection and Water Management (NFEP&WM) was established in 1989 as a result of the regime transformation in Poland. In cooperation with voivodeship (regional) funds for environmental protection and water management constitutes the pillar of the Polish system of financing environmental protection. The basis of the NFEP&WM operation as a State legal person is the Act on Environmental Protection Law. By putting the principle of "polluter pays" into practice, the National Fund collects funds mostly from: fees and fines for exploitation of the environment, mining fees and concession fees, payments resulting from Energy law and the Act on recycling and end-of-life vehicles, revenues from sales of CO2 units and other resources. It also ensures the use of foreign funds for environmental protection from, inter alia, the Cohesion Fund, the European Regional Development Fund, the LIFE + financial instrument, the Norwegian Financial Mechanism and the European Economic Area Financial Mechanism. Thanks to the Green Investment Scheme (GIS) and funds obtained by Poland in international sales transactions of CO2 emission allowances granted under the Kyoto Protocol, the National Fund co-finances investments from the field of climate change and reduction of CO2 emissions.

The National Fund provides financial support mostly for projects which implement environmental obligations of Poland transpiring from the membership in the European Union and in meeting Polish obligations under the Climate Convention, the Convention on Biodiversity, the NATURA 2000 programme.

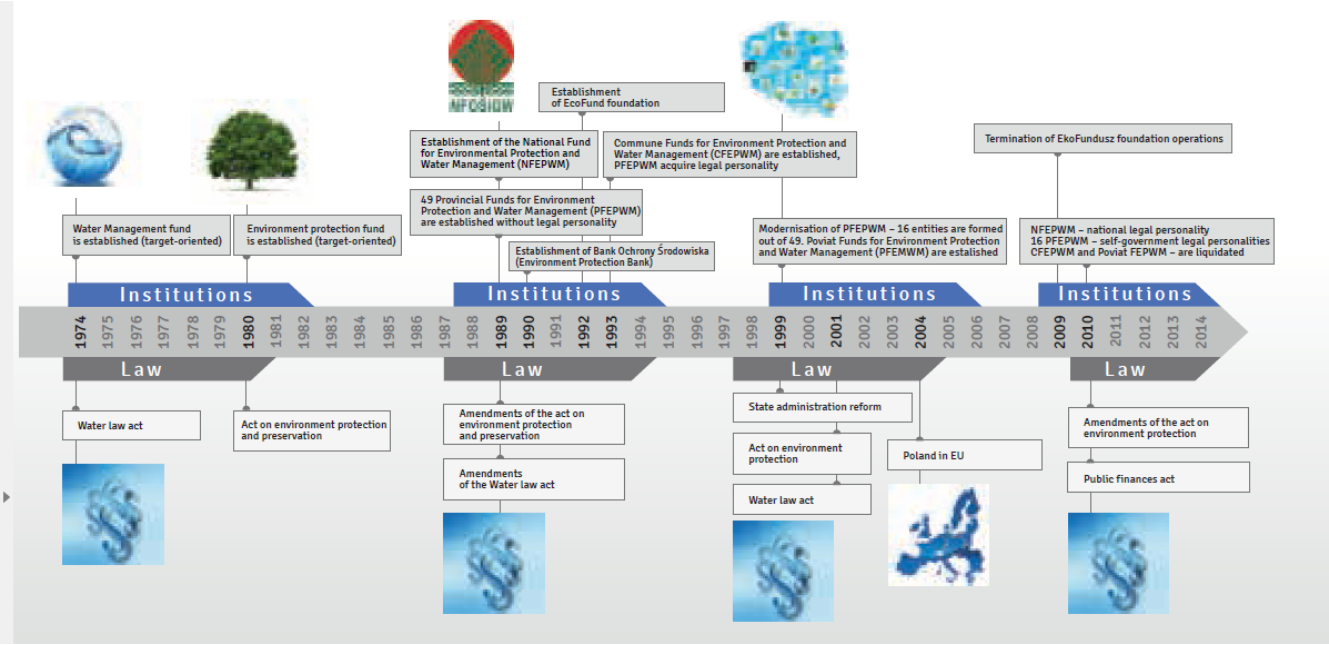
Financing by forms

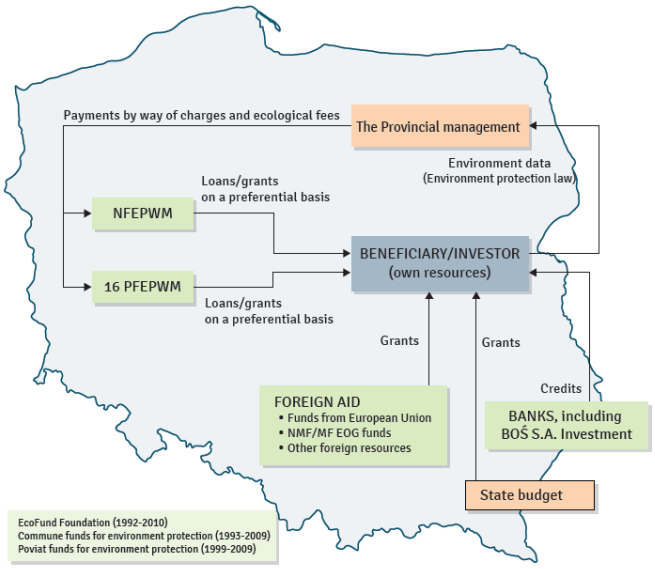
- investment and non-investment grants
- interest-based loans
- loans granted by banks from NFEPWM
- payments for dismantling of end-of-life vehicles
- payments for loan interest
- extinction
- capital investment
- payments for interest or price of bond purchase
- partial repayment of loan capital

Financing by sectors

- protection of water and water management
- air and climate protection
- land protection
- nature and landscape protection
- forestry
- state environmental monitoring
- prevention of natural disasters
- mining
- geology
- environmental education
- expert report and research work
- energy efficiency
- renewable energy
- waste management, including recykling

The evolution of the system of environmental financing

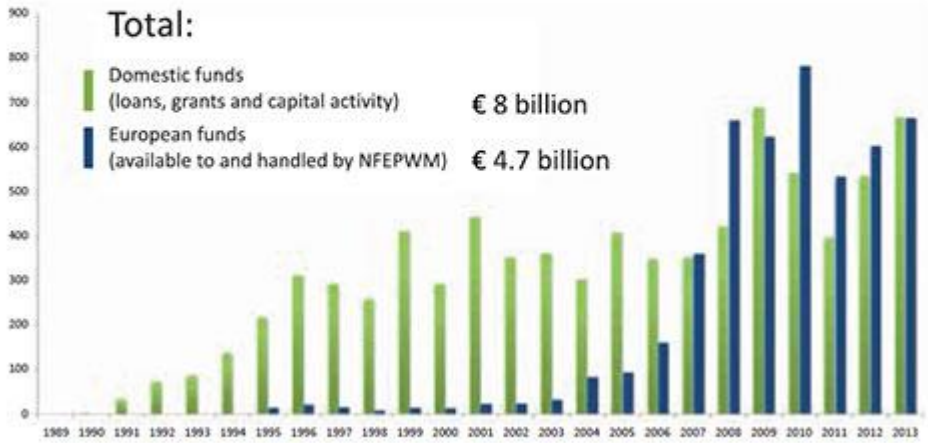




System and the main sources of financing environment protection in Poland. *Fig. Krzysztof Walczak*

The National Fund provided assistance to environmental protection and water management projects for a total of around 8 billion euros from domestic funds and 4.7 million euros from foreign funds from 1989 – 2013.

Financing environmental protection and water management by NFEPWM in 1989-2013 (million euro)



The results achieved by the Fund's financed projects in 25 years of existence are presented below

Selected effects of projects concluded in 1989-2013

Number of sewage treatment plants, which were built or reconstructed	↑	2742
Stream of sewage treated daily in those plants (above) in those plants (above)	↑	8,4 km^3
Number of waste treatment plants, which were build or reconstructed	↑	96
Amount of waste treated every year (including recycling)	↑	over 2 million tons
Annual CO_2 emission reduction or avoidance	↓	12 million tons
Number of public buildings which underwent thermal efficiency improvement	↑	2376

Within 25 years of operation, the National Fund has changes its definition of priorities of financing. In the 90s they had simple, civilizational dimension associated with the negative impact on the environment. At the brink of XX and XXI century, activities of the National Fund started to evolve in the direction to make best use of resources from the European Union and other foreigh assistance souces. At the end of the first and in the second decade of the XXI century , the National Fund is

getting more and more involved in an effective policy concerning energy saving, climate and athmosphere protection, in developing renewable energy sources and eco-innovation.

Examples of programmes and schemes related to CO2 reduction managed by the National Fund

Green Investment Scheme in Poland

Under the Kyoto Protocol to the UN Convention on Climate Change (UNFCCC) a number of countries have made commitments to reduce or stabilise their emissions of greenhouse gasses (GHG) with respect to their 1988 – 1990 emission levels. For a number of OECD countries obtaining their emission reductions by domestic actions would be extremely expensive, therefore they need to acquire emission reductions from third countries. This demand can be satisfied by purchasing from other countries (1) emission reduction units generated by projects that reduce GHG emissions or enhance sequestration, and (2) surplus allowances under the Kyoto protocol (Assigned Amount Units AAUs). Central and Eastern Europe countries are uniquely placed to take advantage of international emissions trading opportunities. The region had surplus allowances during the first commitment period of the Kyoto Protocol. As a result of the restructuring of the economies in the early 1990s, most countries of the region are predicted to have emission levels below the cap defined by the reference year.

GIS is a mechanism linking sales of AAUs to investments that reduce GHG emissions through allocation of proceeds from sales of AAUs for implementation of projects and programmes focusing on GHG emissions reduction and adaptation to climate change. Under the mechanism, the selling country needs to assure buyers that the proceeds from the same of AAUs would be used to finance agreed projects and programmes and credible monitoring and verification measures would need to be adopted. In return the buying country would provide financing for the GIS under the terms of a negotiated contract. There are limitations for entities participating in the EU Emission Trading System – According to the EU State Aid rules, the operators of installations covered by the ETS – such as power sector and a number of large industrial plants – can have only limited access to revenues generated by greening, as this would interfere with the regulations of the EU Emission Trading Scheme and could distort competition on the European Market. Therefore the bulk of revenues from selling allowances under GIS agreements would most likely be transferred to programmes and projects implemented in the entities not participating in the ETS.

Since 2008 Poland met specific criteria and became eligible to be engaged in international emissions trading. The National Fund became the operating entity for the National GIS.

Examples of best practices on programmes include:

- Energy management in public utility buildings. It aimed at reducing or avoiding CO2 emissions by co-financing projects that improve energy efficiency in public utility buildings (form of assistance: grants and loans)
- Biomass heat and power plants. It aimed at reducing or avoiding CO2 emissions from the combustion of fossil fuels by co-financing the construction of biomass combined heat and power stations. (form of assistance: grants and loans)
- Energy management in buildings of selected public sector entities. It aimed at reducing or avoiding CO2 emissiong by funding projects that improve energy efficiency in buildings of selected public sector entities.
- Energy efficiency street lighting. The programme supported the implementation of undertakings that improve the energy efficiency of street lighting systems
- Low emission municipal transport aimed at reducing energy and fuel consumption by municipal transport

Solar collectors by individual investors

In 2010 the National Fund initiated the nation-wide programme of subsidies to loans for purchase and installation of solar collectors by individual investors, natural persons and housing associations. The scheme was created to support obligations of the EU MS under the EU climate and energy package passed in 2009. Polish energy regulation established the requirement for Certificates of Origin to guarantee energy coming from renewable sources and established a quota system for renewable energy. The financial support scheme, while offering a cost-effective means of introducing renewable energy sources into the electricity sector, has favoured big renewable energy projects, and has resulted in little to non locally owned renewable energy generation. At the same time, the analysis of energy consumption showed that housholds comprise 3% of demand for electricity. Secondly, local investment in RE results in significantly more renewable energe capacity being deployed than would otherwise be the case, in particular because it stimulates support for the new technologies.

Therefore, there was a need for the Certificated of Origin scheme to be complemented with an initiative aimed at increasing local ownership and simultaneously aiming to sustain a variety of new technologies and reducing the risk of premature lock-in to a single renewable energy sources.

The technology chosen for the scheme was solar thermal collectors since (1) their efficiency is high enough to convert sun energy into solar thermal energy (2) manufacturing is based in Poland (3) there is a need to increase awareness of effectiveness and use of solar thermal collectors.

Due to limited financial resources available to the National Fund, the Fund has entered a public – private partnership with six banks. The min advantages of this partnership include:

- Banks have operations throughout the country and therefore the programme have a large reach
- There was a need to increase access to loans for financing the purchase of environmental technologies by households, and such partnership facilitates this new form of financing
- Partnership with banks means that few resources are required from the public administration to successfully implement the project, making this a cost-effective initiative. The Fund can therefore transfer its limited resources (people, time) to other programs which overlooking the successful implementation of the program by banks
- Entering a partnership with 6 banks the Fund creates a competition among the banks to offer the most favourable lending scheme to customers.

Energy efficiency programme

Programme contributes to the climate and energy package adopted by the European Parliament aiming at improving the energy efficiency by 20%. The program supports projects that improve energy efficiency and the use of renewable energy solutions in buildings. The programme contains an allocation under the bilateral fund (Norway) of around 1.3 mln euros. Public and private entities providing public service in Poland are eligible to apply as project applicants. Project support is in the range of 170,000 euros – 3,000,000 euros.

Stimulating efficient use of energy by entrepreneurs

Efficient use of energy programme (2010) was the first financial instrument from national resources dedicated only to entrepreneurs. The programme opened a possibility to finance energy audits in

companies and investment, resulting from audits, which increase energy efficiency and reduce demand for electricity. In 2013 the programme was extended "Support for entrepreneurs in the low emission and resource saving management as a financial instrument dedicated to entrepreneurs. The new programme also offered loan funding for projects leading to reduction of the demans for raw materials, reduction of emission and utilisation of waste and waste sediment for power generation purposes.

Bank for Environmental Protection (BOS)

Environmental Protection Bank joint-stock company was established in 1990. BOS became an important partner of the National Fund for the last 23 years. BOS is a bank specialising in supporting projects and tasks for the protection of environment. Within 23 years of activities the bank assigned approx. 3 billion euros on financial support of ecological projects with the total value of investments made with the support of the Bank around 10 billion euros. Today Bank belongs to 20 biggest banks in Poland in terms of assets. It is listed on the primary market of the Stock Exchange. Its main shareholder is the National Fund (56% of the total number of votes) the offer of the BOS is addressed to individual and institutional clients, with particular emphasis on those who are involved in ecological market operations. The Bank develops also the internet service eco-Poland.pl, which combines social responsibility of banking institution with the promotion of pro-ecological attitudes. Working in close cooperation with the National Fund, BOS granted more than 22.3 thousand credits for pro-ecological projects (including more than 10 thousand on solar collectors), implemented by the operators, self-government units and natural persons.

Best practice on CO2 reduction
One of the largest joint ventures of the National Fund and the BOS bank was the program of preferential credit lines for pro-ecological investments, mostly performed by natural persons. Credit lines allowed mass implementation of such tasks as: modernisation of heating systems – replacement of coal fired boilers to other, of less emission or utilisation of renewable sources of energy (heat pumps, biomass boilers and other); liquidation of local boiler houses and connection of objects to the municipal heating networks; thermal isolation of buildings,

Source: www.nfosigw.gov.pl

Slovenia

Eco-Fund, Slovenian Environmental Public Fund was established in 1993 as a legal public entity under the Environmental Protection Act. Eco-Fund is under the jurisdiction of the Ministry of Environment. It was constituted as a non-profit, joint stock company with a start up capital of approx. 65,000 Euros allocated from the state budget in 1994. The Fund was transformed into a public financial fund in 2001. In 2005 the Fund has changed its name to ,Environmental Fund of the Republic of Slovenia. Its purpose remained the same; to manage assets earmarked for the preservation of public interest in the field of environmental protection. In 2008 the Eco Fund was granted to use additional financial mechanisms beside soft loans and guarantees, such as grants (non-repayable subsidies) to support environmental investments. The Fund was also given new tasks

regarding the management of special funds for environmentally degraed areas under the Mining Act, and in the field of energy efficiency of the final consumers of energy.

The Fund provides the following support:

- Loans to legal entities (municipalities and/or providers of public utility services, enterprises and other legal entities) for investments in environmental infrastructure, environmentally sound technologies and products, energy efficiency, energy saving investments and use of renewable energy sources
- Loans to individuals (households) for conversion from fossil fuels to renewable enrgy sources, energy saving investments, investements in water consumption reduction, connections to sewage system, small waste water treatment plans, replacement of asbestos roofs.
- Grants to individuals (households) for investments in electric cars and for invesments in residential buildings (energy efficiency and use f renewable energy sources)
- Grants to legal entities (municipalities and/or providers of public utility services, enterprises and other legal entities) for investments in electric cars and buses for public transport on compressed natural gas or biogas
- Grants to municipalites for investments in buildings where public education takes place (scholls, kindergardens, libraries etc) newly constructed as low energy and passive buildings or renovated in passive standard.

The Fund cooperated with international financing institutions such as the European Investment Bank, the International Bank for Reconstruction and Development on co-financing of projects.

The Fund uses the following forms of assistance:

- Loans for investments in environmental protection with favourable interest rates
- Issuance of guaranteed for environmental investments
- Financial, economic and technical advice

Examples of programmes leading to Carbon reduction
In 2013 the Fund announced a call for citizens for environmental home investments (5 mln euro programme). The investments related to carbon reduction may include: - Installation of heating systems with biomass or condensing boiler - Connection to district heating - Installation of effective ventilation systems - Installation of solar systems, biomass boiler or efficient heat pump system - Electricity generation from renewable energy sources or micro-cogeneration of electricity and heat - Measures to reduce heat loss (replacement of external doors and windows, thermal insulation of facades and pitched roofs or ceiling or floor - Construction or purchase of low energy or passive residential buildings - Purchase of large energy efficiency household appliances Under this scheme a single loan can reach EUR 20,000. For investments in advanced low energy or passive residential buildings, equipment for generating electricity, the purchase of hybrid cars or electric drive, and the extensive renovation of buildings the loan may reach EUR 40,000 . the

minimum loan amount is EUR 1500.

Until 2013 the Fund launched a call for legal entities and individual entrepreneurs. Through the call 24 million euros were available for investments in environmental protection. Assistance was provided through:

- Loans for investments in the reduction of GHG such a installation of modern high efficiency heating systems, replacement of windows, improvement of thermal insulation, purchase of environmentally friendly vehicles or equipment that use renewable energy for hearing or electricity production
- loan for each type of investment may be up to EUR 2 million, in the case of investments carried by the municipalities the loan may exceed EUR 2 million. Interest rate offered: 3 – month EURIBOR +1.5%, up to 90% of eligible costs. Repayment period up to 15 years including up to one year grace period,

Annex 3 Overview of main characteristics of climate funds[49]

INDONESIA – The Indonesia Climate Change Trust Fund (ICCTF)

Objective	It aims to support the Government commitment to implement the Jakarta Commitments to enhance national ownership and improve aid coordination in response to climate change. It aims at supporting shift to a low-carbon economy and greater resilience to climate change and to enable the government to increase the effectiveness and impact of its leadership and management in addressing climate change issues.
Capitalisation	The Fund manages two sub-Funds (1) Innovation Fund directs bilateral and multilateral funding from development partners and other contributions and (2) Transformation Fund which plans to utilise funding sources such as domestic funds, loans and various types of investments which generate direct financial revenue and support the mobilisation of investment in low-carbon and climate resilient economic development.
Governance	The system includes Steering Committee (policy and operational guidelines, management, monitoring and evaluation, approval); technical committee (evaluation of project proposals); Secretariat (daily operations)
Implementation	Three priority windows: energy and energy efficiency, sustainable forestry and peat land management and resilience. Initially line ministries can apply for funding, later local governments, NGOs and universities and finally it is planned that the private sector will have access to funding.
Monitoring, reporting, verification	Annual monitoring and evaluation missions.
Website	http://www.icctf.or.id

[49] Based on Blending Climate Finance Through National Climate Funds. A guidebook for the Design and Establishment of National Funds to Achieve Climate Change Priorities. UNDP

BANGLADESH – Climate Change Resilience Fund

Objective	The Fund was established in 2010 and is linked to the national Climate Change Strategy and Action Plan for 2009 – 2018. It aims to provide support to vulnerable communities in adapting to greater climate uncertainly and changing agricultural conditions.
Capitalisation	It includes national, bilateral and multilateral contributions from Denmark, Sweden, EU and the UK
Governance	Governing Council and Management Committee (overall policy coordination and decision making.). Secretariat provides support in day-to-day operations. Expert panel provides specific short-term advice and support including on technical aspects of review of proposals.
Implementation	Implementation by line ministries. Around 10% of funding is directed to NGOs and civil society support to develop grassroots mechanisms for communities to increase their resilience.
Monitoring, reporting, verification	Mid-term and annual evaluation of outcomes based on agreed results indicators.
Website	http://bccrf-bd.org/

CHINA – CDM Fund

Objective	Established by the Ministry of Finance and the National Development and Reform Commission to support the National Climate Change programme and promote international cooperation. It channels resources toward initiatives that address climate change and promote social and economic sustainable development.
Capitalisation	Revenues generated by CDM projects in China, earning from CDM business operations, grants and other types of support from multilateral and international institutions.
Governance	Board (review of management regulations, strategic planning, review of applications, annual budget, accounting) CDM Fund Management center (collection, management and use of funds, initial selection and review of proposals)
Implementation	Grants are used to support climate-related capacity building and promotion of public awareness. Investments mainly support industrial activities contributing to addressing climate change and can provide equity investment, loans, guarantees, and other.
Monitoring, reporting, verification	CDM Fund management Center is responsible for monitoring.
Website	http://www.cdmfund.org

ECUADOR – Yasuni ITT Trust Fund

Objective	Established to support decision to permanently forego the extraction of the Yasuni ITT oil fields. The initiative will assist the country to collect and channel

	funds towards climate change and sustainable development and enable to gradually change the energy matrix of the country through investments in environmentally friendly and renewable sources of energy.
Capitalisation	Public, private, individual, bilateral and multilateral contributors are requested to compensate 50% (2008 oil prices) of the income it is forgoing, amounting to 3.6 billion USD over the 13 year period. In exchange the government issues Yasuni Guarantee Certificates. They guarantee that ITT field oil reserves will not be extracted and instead will be maintained as part of a national part. The guarantees will be included in the European Union Allowances system of emission trading.
Governance	Steering Committee (strategic directions, reviews and makes fund allocation decisions, ensures coordination) Technical Secretariat (administrative, technical and substantive support including project appraisal) . Grant proposals developed by national recipients and implementing organisations.
Implementation	Two windows available: (1) Capital Fund Window – to finance renewable energy projects (2) revenue Fund Window – projects in the framework of the sustainable development plan.
Monitoring, reporting, verification	Annual narrative reports, annual financial statements, mid-year updated, project completion reports, certified financial statements.
Website	http://mdtf.undp.org/yasuni

BRAZIL – National Fund on Climate Change

Objective	Created to finance mitigation and adaptation projects and to support studies on climate change and its effects. Promotes low carbon development in Brazil. Focuses on activities in energy, agriculture, desertification, education and training, REDD+ projects, technology development, public policy formulation, sustainable production chains, payment of environmental services and other.
Capitalisation	Special tax on the profits made in the oil production chain. Other public, private, national and international donations. The initial budget estimated at 100 million USD.
Governance	Steering Committee (management, monitoring, evaluation allocation of financial resources. Ministry of Environment (coordination of the administrative activities, annual budget proposals and plans for implementation).
Implementation	Grants and loans to recipients.
Monitoring, reporting, verification	Annual implementation reports
Website	http://www.mma.gov.br/sitio/index.php?ido=conteudo.monta&idEstrutura=251#

Annex 4 Carbon offset initiatives/programmes examples

Country Level

Initiative / Programme	Description

Initiative / Programme	Description
Costa Rica	Costa Rica aims to become carbon-neutral by 2021, but has made this target conditional on external support. It intends to reduce its fossil fuel emissions, and increase its carbon sinks, to reach net zero total emissions. It does not plan to use offsets in other countries. The Costa Rican government is implementing plans to go carbon neutral by beginning to offset all of the country's carbon dioxide emissions. Costa Rica aims to reach this goal using budgeting, laws and incentives, including measures to promote biofuels, hybrid vehicles, and clean energy. Another key component of the national strategy will be a "C-Neutral" label to certify that tourism and certain industrial practices mitigate all of the carbon dioxide they emit. To foster the development of C-Neutral, the country is cultivating a carbon certificate market that aims to not only boost carbon capture and storage in the nation's forests, but also help maintain their scenic beauty. Under the new certification system, tourists and businesses will be charged a voluntary "tax" to offset their carbon emissions, with one ton of carbon valued at $10. The financing amount is not specified; presumably the fees that are collected plus a government budget. Money will be used to fund conservation, reforestation, and research in Costa Rica. Relevant aspects of the specific legislation and regulations:[50] Defines the formula for C-neutrality; Defines requisites to establish a system to demonstrate C-Neutrality; Applies to all types of organisations; "0 emissions" are verified thru accredited verifiers.
Seychelles	The Government recognizes that for a small country like Seychelles, tourism is essential to the economy and given its remoteness, visitors can only arrive by aeroplane. Therefore, it is not possible to reduce these emissions directly and carbon offsetting appears as the most realistic option in these circumstances to mitigate its climate change impact. In keeping with this policy, this country's Cousin Island became the World's 1st Carbon Neutral Nature Reserve. Nature Seychelles is a multiple award winning non-profit environmental organization in the Seychelles. Its flagship reserve is Cousin Island Special Reserve. In recognition of the environmental impact of international visitors to Cousin, most of who fly from Europe and reach the island by boat, Nature Seychelles has undertaken a rigorous approach to carbon neutrality. This has involved measuring all the emissions associated with the island, reviewing opportunities for on-going reductions and investing in high quality carbon credits from a clean cook stove project in Darfur, Northern Sudan. The project, running since December 2007, is currently at listed status with the Gold Standard Foundation. It has been implemented by Practical Action. Importantly, the project is being independently verified by Bureau Veritas. Moreover, in terms of assurance, whilst this activity has been voluntarily undertaken by Nature Seychelles and Cousin Island, we have been careful to ensure that it has been conducted to the highest standard. Therefore, we

[50] Source: Presentation by Felipe De León, Climate Change Directorate: 'El Mercado de Carbono de Costa Rica (MCCR)'.; Intercambio PMR Sur-Sur (March 2, 2014).

Initiative / Programme	Description
	retained Nexia, Smith and Williamson to assure both the measurement and offsetting process. The Carbon Footprint was measured by Carbon Clear – a leading carbon management company from the UK. Keeping Cousin carbon neutral is an on-going programme advised by Carbon Clear. Each year carbon credits are purchased through investment in verified projects in poor and developing countries. Two other projects in Indonesia and Brazil have been recipients of the carbon offsets funds so far. The Brazilian project prevents deforestation and protects the Cerrado Biome by using agricultural waste in place of deforested wood to fire community based ceramic kilns. The Indonesian project made a number of vital upgrades to an existing conventional power station coal to make it geo-thermal.

Sector level

Initiative / Programme	Description
Aviation	IATA Carbon Offset Programme. The aviation sector deserves special attention as an important part of tourist activities. It is becoming increasingly apparent that aviation is one of the fastest growing sources of carbon dioxide (CO2) emissions that contribute towards climate change. The International Aviation Transport Association (IATA) has its own **voluntary** Carbon Offset Program as part of which over 30 IATA member airlines have introduced an offset program either integrated into their web-sales engines or through a third party offset provider. According to IATA, its program • Brings standardization to the process; • Makes it possible for airlines of any size to easily introduce a credible and independently validated offset program; and • Offers best practice in the structure and implementation of carbon offsetting. Offsets are carefully selected and accounted for, and the issue of carbon calculation has been resolved by committing to the ICAO methodology supplemented with actual airline carbon data.
Tourism	The Tourism Industry Carbon Offset Initiative (TICOS)[51] is an industry wide programme supported by international agencies, such as UNESCO and IUCN's World Commission for Protected Areas and the association and tourism industry bodies, such as the Association of Independent Tour Operators (AITO). TICOS aims to stimulate the collective action of the holiday supply chain - tour operators and travel agents selling holidays that include air or other forms of travel. Revenue raised from the service will fund projects where there is a real additional and measurable carbon saving and wider social benefits which favour the environment, wildlife, pro poor policies, community improvements and education. The TICOS programme currently finances two projects:

[51] Although this initiative has been recently discontinued, it is still interesting as an example of a sector-wide model for offsetting in the tourism industry.

	• Project 1 - San Juan River Basin, Northern Region of Costa Rica • Project 2 - Kvarken Archipelago UNESCO World Heritage Site

Company level

Airlines	
NatureAir	NatureAir claims to be the first carbon neutral airline since 2004 (world's first certified carbon neutral airline). In this period, it has helped to protect and conserve over 500 acres of tropical forests in the Osa Peninsula of Costa Rica. Since day one, NatureAir has offset 100% of its flight emissions thru its own contributions. This means that simply by choosing NatureAir, the passenger chooses to conserve and protect tropical forests in Costa Rica. Compensation allows offsetting emissions related to flights through Government recognised compensation projects. Such projects also provide other benefits, such as tropical forest conservation, protection of biological corridors, environmental payment services to local communities and public education. NatureAirchose to support conservation projects in the Osa Peninsula of Costa Rica, described by Nat Geo as one of the most biologically diverse ecosystems on earth. As deforestation is the planet's largest single source of carbon emissions and a significant source of carbon emissions in Costa Rica, the Company felt this compensation method would be most suitable locally. NatureAir has entered into an agreement with FONAFIFO, the National Forestry Finance Fund (of MINAE, the Ministry in charge of Environment and Energy). To ensure the calculation of the volume of emissions relevant to each flight the company calculates the total carbon emissions for all flight sectors flown in the previous twelve months (associated with all aspects of its operations both in the air and on the ground). To ensure the calculation of the volume of emissions relevant to each flight the company calculates the total carbon emissions for all flight sectors flown in the previous twelve months (associated with all aspects of its operations both in the air and on the ground). The calculations are processed thru the FONAFIFO, which uses guidelines widely accepted and equal to the Intergovernmental Panel on Climate Change (IPCC) guidelines for calculating emissions inventories. In the end, **the cost of the offset is included in the price of the ticket**.
SriLankan Airlines	SriLankan Airlines has introduced a voluntary carbon offset programme - "flygreen" - that wants to "inspire every passenger to make a greener choice when crossing oceans". The company believes it is crucial to involve its passengers, empowering them to actively participate in the challenge of reducing carbon emissions. For this reason SriLankan Airlines introduced a voluntary carbon offset functionality **in the ticket reservation process** which allows passengers to make a **voluntary contribution** to neutralize their own carbon footprint attributed to flying. To ensure that the carbon calculation methodology and back-end process are robust and adhere to best practices for offsetting as well as to ensure the

	right portfolio of projects and the delivery of high quality carbon offsets, SriLankan teamed up with IATA to jointly develop this programme aimed at passengers who desire to neutralize their carbon footprint. For reasons of transparency the programme is being independently certified by the Quality Assurance Standard (QAS) in the UK. Passengers who are making use of this new facility invest with their contributions into a local small hydro project that was developed under the Clean Development Mechanism (CDM) with support of the United Nations (UNFCCC). Hapugastenne and Hulu Ganga small hydropower projects generate electricity for local communities and replaces conventional fuel oil or diesel powered thermal stations, reducing a significant amount of CO_2 emissions that would have been generated otherwise. This installation improves the livelihood of neighbouring communities, improves air quality, and reinforces electricity supply into the local and national grid.
United Airlines	United's Eco-Skies CarbonChoice program provides customers with the opportunity to reduce the carbon footprint associated with their air travel through the purchase of carbon offsets. Corporate customers can take advantage of a similar program, with the option to purchase carbon offsets for both cargo shipments and business travel. Available through a partnership with Sustainable Travel International (STI), the carbon offsets allow participants to support projects designed to help reduce greenhouse gases and provide social and economic benefits to communities United serves. *How the program works* After the customer calculates the carbon footprint of his/her travel using United's carbon calculator, he/she will have the option to donate to one of STI's carbon reduction projects using money or miles. STI will invest the contribution in the selected project through the purchase of carbon offsets. According to Geiling (2014) "Since instituting programs such as the Award Miles redemption program,[52] which lets passengers pay for carbon offsets with frequent-flier miles, United has seen a 20 per cent increase in participation, though from what baseline number is unclear." Carbon reduction projects include: • Community-based forest conservation in Peru: Conservation International's Alto Mayo Forest Carbon Project in northern Peru helps to protect a critical watershed for more than 240,000 people and many threatened species found nowhere else on Earth. The project also provides jobs for local families and incentivizes new approaches to farming that support rather than undermine native forests. This project is an independently verified REDD+ carbon offset project registered under the Verified Carbon Standard (VCS). • Forest conservation in California: Your support of the Garcia River Forest Project helps to conserve forestland, restore wildlife habitat and protect local forestry jobs in the heart of California's Redwood region. Preservation of this forest land allows for the prevention of

[52] https://www.united.com/web/en-US/content/company/globalcitizenship/environment/carbon-offset-program.aspx

	77,000 metric tons of greenhouse gas emissions annually and is an independently verified carbon offset project registered with the Climate Action Reserve. • Renewable energy in Texas: The Capricorn Ridge Wind project helps to displace fossil fuel-based energy production with clean, renewable wind power. This project produces enough wind-based electricity to power approximately 220,000 homes annually and is an independently verified carbon offset project registered with the Verified Carbon Standard. *CarbonChoice for businesses* CarbonChoice gives corporate customers the ability to track and offset the emissions associated with their business travel and freight shipments on United. This program provides customized emissions reports and gives customers the option to easily offset these emissions. *CarbonChoice for cargo* Cargo customers can also calculate the impact for a specific shipment with our CarbonChoice single-shipment calculator and see different options for offsetting the applicable amount of carbon emissions. Or create a customized program for all cargo shipments.
Tour Operators / Travel Agents	
GreenHotelWorld	GreenHotelWorld sells itself as a 'climate friendly' company. It **offsets the carbon emissions of all overnight stays** of its travellers through its cooperation with *myclimate* (www.myclimate.org).[53] This offset provider engages in sustainable climate protection activities worldwide and is one of the world's leading providers of voluntary carbon offsetting measures. Myclimate's **carbon offset projects are characterised by adherence to extremely strict criteria** (Gold Standard, Plan Vivo) and by contributing to a sustainable development in the project region. Myclimate also provides a comprehensive range of sustainability consulting services and uses climate education projects to sensitize people to climate change and climate protection. GreenHotelWorld has selected the following CO2 offset projects: • Kolar Biogas Project in Karnataka, India • Reforestation initiative in San Juan de Limay, Nicaragua • *Energy efficient cook stoves in Siaya, Kenya*
Kuoni	**Customers are offered compensation tickets** for their **flight** emissions. Kuoni collaborates with two carbon offsetting organisations, *myclimate* and Green Seat[54], to offer clients high-quality offsets for their flight emissions. This is made possible by supporting, for example, waste management projects that produce compost in Bali and Egypt. Apparently, since it began offering carbon offsets to its Swiss customers in 2009, sales have increased 465%. It has chosen to support the following projects: • Waste disposal project in Bali that provides jobs for some 120 people and recycles some 50 tonnes of waste every day. The project, which Kuoni has supported for the past four years, also provides a valuable

[53] GreenWorldHotel offsets 26.6 kg CO2e per overnight stay.
[54] http://greenseat.nl/en/

	source of income for local inhabitants who collect the waste in the first place and are remunerated for what they hand in. Since around 85% of the total waste produced on the island is organic, a lot of the waste processed by the facility can be converted into valuable compost, which is then sold to nearby farmers. • Converting used cooking oil generated by hotels and restaurants in Bali into biodiesel. Caritas Switzerland, a Roman Catholic relief, development and social service organisation, acts as implementing partner on the ground and oversees the construction of the biodiesel recycling plant – which will be run as a social enterprise, creating 20 jobs. It is expected that approximately 8.500 tonnes of CO2-equivalent emissions will be reduced by the project during its lifetime. • Gold Standard carbon offset project that aims to sell efficient household cook stoves in the western province of Kakamega, Kenya. • In collaboration with Green Seat, a composting project in Egypt to offer customers from Apollo Scandinavia and Kuoni Netherlands the opportunity to offset their flight emissions. The most common practice for disposing agricultural waste there is to dump it at municipal waste sites or in the desert where it decomposes and releases harmful methane emissions into the atmosphere, which leads to climate change. By composting the organic waste, greenhouse gases emissions are diminished and the compost can be used to fertilize agricultural grounds, resulting in improved soil conditions. Alternatively, Kuoni Netherlands specialist Koning Aap includes a donation of up to 18 CHF per tonne of CO2 emitted during customers' flights - **with no charge to their clients**. The funds go toward a reforestation project through the organisation Trees for All[55]. The charity is a member of the *klimaat compensatie* (http://www.klimaatcompensatie.nl/). In terms of the offsetting of corporate emissions, all business travel undertaken by employees of VFS and Kuoni Switzerland, including the corporate headquarters in Zurich, has been compensated through partnership projects with *myclimate*. This constitutes 25% of the Kuoni Group business travel footprint.
Tui Travel PLC (UK)	According to its Sustainable Holidays Report for 2013, Tui Travel "offset 1,2m tonnes of carbon through investing in clean energy projects over the last 5

[55] http://www.treesforall.info/

	years (equivalent to taking around 500,000 cars off the road for a year)". In 2009, for all of that summer's bookings, Thomson[56] joined forces with First Choice[57] and introduced the '*World Care Fund*'.[58] The scheme gave customers the **opportunity to donate £1 per adult and fifty pence per child on an opt-out basis – a donation that was matched by the company**. Originally launched by First Choice in 2007, the scheme raised at least over £1,000,000 for *The Travel Foundation*[59], who organises projects benefiting local environments and communities overseas, and *Climate Care*[60], one of the UK's leading offsetting providers (80% of the funds were destined to carbon offsetting). It seems that more than one third of First Choice customers contributed to the scheme in which the payment was automatically added to the bill, and explained so the customer knew exactly what it was. The payment was easily removed if the customer didn't wish to contribute. Apparently, with other industry schemes traditionally having very low uptakes, according to TUI, **the opt-out system has proven to be a winning formula**. Further ahead, in 2011, Thomson and First Choice made 20 commitments around reducing their environmental impact raising £14 million by 2014, which they planned to achieve by 2014.[61] And, as part of this, they pledged to save one million tonnes of CO2 emissions by investing in forestry, clean energy and energy efficiency projects around the world (apparently through the World Care Fund and Climate Care). According to TUI Travel, "the uptake of the scheme apparently remained higher than traditional offsetting programmes, with around **a third of customers contributing** – helping to make it the **largest carbon offsetting scheme in the travel industry**." According to Climate Care, the carbon reduction portfolio was designed to ensure that every offset project supported by the World Care Fund was located in one of the countries that Thomson and First Choice travel to – enabling them to give back to their destinations by looking after the local environment; with projects that not only generate carbon emission reductions but also provide sustainable benefits to local communities. The projects selected were certified by internationally recognised benchmarks such as the Verified Carbon Standard (VCS), the Climate, Community and Biodiversity (CCB) standard as well as the Gold Standard - to ensure the quality of the carbon reductions (assessed to ensure that they're not only good for the environment but also for local communities). For example, in Zambia a hydro-electric project is providing a new reliable source of

[56] www.thomson.co.uk
[57] www.firstchoice.co.uk
[58] Thomson and First Choice are part of TUI Travel PLC (UK), which is one of the world's leading leisure travel companies.
[59] The Travel Foundation (www.thetravelfoundation.org.uk) is a charity that helps to care for tourist destinations and is the first organisation of its type in the world. Its role is to ensure that local people get a fair deal from tourism.
[60] Climate Care (www.climatecare.org) is a leading carbon offset organisation, channelling money into carbon reduction and renewable energy projects in the developing world.
[61] Three-year Sustainable Holidays Plan (2012-2014).

	electricity to local schools and hospitals. This will help local people - in hospitals operations can be undertaken at all times, local school children will have greater access to computers in schools and households will have access to electric light, on demand, for the first time.
TUI AG (Germany)	In partnership with the climate protection organisation atmosfair, Hapag-Lloyd Cruises[62] is the first cruise operator to offer its guests the opportunity to offset their cruise-only carbon emissions. Using an online climate calculator, passengers can calculate the greenhouse gas emissions of their cruise in advance and offset them by contributing to a project that provides solar lamps in rural areas of India. A quarter of the offset amount is paid by Hapag-Lloyd Cruises.
Hospitality	
Hilton Worldwide	Hilton Worldwide has a Carbon Offset Program in Southeast Asia with 13 participating properties in Indonesia, Malaysia, Singapore and Thailand that are offsetting carbon emissions from events and meetings since its introduction on October 1st 2012. **At no additional cost to customers**, the program measures carbon generated by events and meetings and offsets these through the purchase of carbon credits. The credits are used to fund projects in Borneo and Cambodia that have strong community and environmental benefits beyond carbon. The program has been well received by customers including large multinational companies that put a premium on sustainability. In its first six months, around 70 per cent of events and meetings offset were from corporate customers. Working with Climate Friendly, a carbon offset solutions provider, Hilton Worldwide identified two initial beneficiaries of the carbon offset program in Southeast Asia. They are the Borneo Rainforest Rehabilitation Project and Cambodia Cookstove Project.
Mercure Hotels	Mercure Hotels in Australia have committed to Carbon Neutral Conferencing. Accor's Mercure hotel brand is one of Australia's largest, with 17 hotels in every state capital of Australia, as well as in a number of regional centres. Accor's Mercure hotels have partnered with the Carbon Reduction Institute for the first national carbon neutral offering from a major hotel chain in Australia. Emissions produced from conferences, specifically, heating, cooling, lighting, projectors, AV systems and food and beverage (cooking and refrigeration) are calculated and the Mercure Hotel then pays for these emissions to be offset. Currently the offsets being used are sourced from a waste facility that diverts the organic part of domestic waste from landfill and into compost. The decomposition of organic waste in landfill produces methane, which is 21 times more potent than CO2. Under the Mercure Meetings initiative, Mercure hotels will fully fund offsets for carbon emissions produced during a conference. This means the offset cost of making a conference Carbon Neutral is covered by the hotel, not the conference group. This cost covers the greenhouse gases produced during the meeting and the offset is used to fund green-efficient energy sources. Mercure has teamed with the Carbon Reduction Institute to streamline the

[62] http://www.hl-cruises.com/company/environmental-management

	carbon offsetting process. The Institute's Carbon Calculator determines the amount of carbon emissions created by a conference, and calculates the amount of credits to be purchased from emission reduction projects or carbon trading schemes, such as the replacement of inefficient lighting and technologies with more efficient products, and replacing the use of electricity with natural gas in both domestic and business environments. Each credit represents a reduction of emissions equivalent to 1 ton of CO2 and is registered through the New South Wales Greenhouse Abatement scheme. In addition, 10 percent of all revenue collected from the purchase of these credits is donated to CleanUp Australia in support of their CleanUp Our Climate program.
Six Senses	Soneva Fushi, located in the Maldives, is an iconic resort of this international hotel chain. Current Carbon Offset Program A survey of CO2 emissions from the resort between 2008 and 2009 revealed approximately 75% of all carbon emissions resulted from guest and employee flights. Because flight travel is essential to the resort and mostly uncontrollable, Soneva Fushi offsets these emissions through a wind turbine project in southern India. To offset flights, the resort **adds a 2% carbon tax to each room rate** and uses a carbon calculator developed together with Carbon Foresights. In 2009, the resort recorded and offset the following: • 5,929 guest flights covering 140 million kilometres from as far as Buenos Aires, Argentina • 329 host flights covering 2.9 million kilometres, with most flights to or from nearby India or Sri Lanka Although all guests are charged the 2% carbon levy on room cost, there has been virtually no opposition from guests.
Wyndham Worldwide	Wyndham Worldwide Corporate Travel launched its first business travel carbon offset program with longtime preferred supplier, Avis Budget Group. The program includes a $.50 fee charged to associates' daily car rental rate with Avis or Budget. The money goes to the EarthEra Trust Funds, a company used to build new renewable energy in North America, which reduces the need for traditional energy and burning fossil fuels. This fee replaces the $.60 energy concession fee previously imposed by Avis Budget Group.[63] With this program, Wyndham Worldwide will offset all of the Company's carbon emissions for business car rentals. Moreover, Wyndham has become the launch partner for United's Eco-Skies CarbonChoice corporate carbon offset program (mentioned above). As discussed previously, the program enables the airline's corporate customers to track and offset the emissions stemming from their business travel and freight shipments on United at the enterprise level. Wyndham's corporate offset purchase will be invested in the GreenTrees' Advanced Carbon Restored Ecosystem (ACRE) project along the Mississippi River Valley. To date, GreenTrees and its landowners have planted over 36 million trees on nearly 100,000 acres along the Mississippi Alluvial.

[63] To help recover the 'escalating' energy costs related to business operations, imposed to all customers at all locations.

Annex 5 Overview of incentives for tourism development

Over the past few years, Montenegro has undertaken varoiuos fiscal policy actions to design and implement measures which will encourage investments in tourism as the priority development sector. Such measures include the following:

1. Planning documents have been completed to allow construction of 130 hotels in the category of 4 and 5 stars, which eliminated the existence of non-urbanized land as a business barrier.

2. Amendments to the Law on Spatial Development and Construction of Structures (2013) abolished the obligation to pay utilities contributions for construction of 4* and 5* hotels. In 2014 this resulted in the increase of 100% in the number of issued construction permits for construction of high-quality hotels.

3. Amendments to the Law on Immovable Property Tax introduced a progressive taxation rate which provides a higher tax burden on 3* hotels, if they are located in priority zones. In addition to this, an opportunity is provided for taxation of undeveloped construction land.

4. Amendments to the Law on Immovable Property Tax envisaged reduction of annual immovable property tax by up to 30% for 4* hotels and by up to 70% for 5* hotels. As a result of the measure, Hotel Splendid paid 450.000 € on these grounds in 2014, while it will pay 70% less next year.

5. Amendments to the Law on Value Added Tax abolished the obligation to pay import VAT for delivery of products and services for construction of 5+ star hotels.

6. The Decree on Transforming Residential into Hospitality/Tourism Units has been adopted.

7. Reduction of construction zones from 15% to 9% and prohibition of building of new residential units in the zone of approx. 1.00 m from the coastline constitutes the starting direction of the new Special Purpose Spatial Plan for the coastal region, the drafting of which is underway. Consequently, undeveloped space will be protected from further devastation by unplanned construction, and valuable natural areas will be preserved.

At the session held in June 2015, the Government adopted another set of fiscal measures relating to incentives and tax benefits in tourism which include:

1. Reducing of VAT for other tourism services to the level of tax rate applicable to accommodation - from 19% to 7% (by emending the VAT law);

2. Relief of obligation to pay property tax in the period of 10 years (by amending the Law on Immovable Property Tax);

3. Relief of obligation to pay personal income taxes and surtaxes in the period of 10 years (by amending the Law on Local Self-Government Financing);

4. Reducing personal income contributions by 50% for the period of 10 years (by amending the Law on Contributions for Mandatory Social Insurance);

5. Subsidizing interests in the amount of 3-4 percentage points for investments in standard hotels, with the credit repayment period of 15 to 25 years (by amending the Law on Budget);

6. Grace period for credit is two years, and interest capitalization 4 years (for investments in standard hotels);

7. Relief of obligation to pay fees for regional water supply system for standard hotels and hotel component of hybrid hotels (by amending the Law on Regional Water Supply System).

In addition, it is planned to:

- Define new forms of business models in hospitality facilities with the aim to attract and encourage new investments in tourism (hybrid hotels, mixed-use resorts) - by amending the Law on Tourism;
- Define new forms of planning tourism purpose, new criteria for paying fees for utility equipment - - by amending the Law on Spatial Development and Construction of Structures;
- Define types of hospitality facilities which may be storied in order to implement the proposed business models - by amending the Law on Tourism and Law on Spatial Planning and Construction of Structures;
- Define obtaining of the condominium ownership right and ownership rights of sections of hospitality facilities for the purpose of implementation of proposed business models - by amending the Law on Ownership and Legal Relations and Act on State Survey and Cadastre;
- Define special zones for tourism development in the north of Montenegro under special conditions – by drafting a new Law on Tourism Zones.

Fiscal incentives and tax benefits in tourism relate to investments in:

- 4 and 5 star hotels;
- 4 and 5 star hybrid hotels; and
- mixed-use resorts of these categories.

Criteria for granting of fiscal incentives depend on the place where an investment is to be implemented, and on the choice of a business model (standard hotel/hybrid hotel).

The criteria classified by business models are given in a table below.

Investments in 4 and 5 star standard hotels	In key tourism places, this model of incentives relates solely to 5* hotels, and in other places to 4* hotels as well. Hotels in 5* category have the highest importance for improvement of tourism offer. In economic terms, they influence the most the growth of GDP and the increase of employment. Average price of room is 212.00 EUR, and a 5* hotel employs 1.3 employees per one hotel room. Hotels of this category have all the amenities which ensure additional non-accommodation consumption. Due to good occupancy and other advantages, and due to revenues in exploitation, a "key" in a 5* hotel brings seven times higher revenue compared to standard residential units. A model of incentives for encouraging this type of investments should imply: • Reduction of VAT on other tourism services to the VAT rate applicable to accommodation; • Relief of the obligation to pay property tax in the period of 10 years; • Relief of the obligation to pay taxes and surtaxes on personal income in the period of 10 years; • Reduction of personal income tax by 50% for the period of 10 years; • Subsidizing interests at the level of 3 - 4 percentage points (target interest of 3%), with the credit repayment period of 15-25 years; • Credit grace period is two years, and interest capitalization 4 years; • Relief of the obligation to pay fee for regional water supply system.
Investments in hybrid hotels, that is to say in mixed-use resorts of 4 and 5 star category	In key tourism places, this model of incentives relates solely to 5* hotels, and in other places to 4* hotels as well. Hybrid hotels and mixed-use resorts are a combination of hotel and residential units in a single building or a tourist complex, with a centralized management of the building (complex). The characteristics of the hybrid concept are: • the number of accommodation units intended for residential purposes (selling) is limited; • the quality of construction and interior furnishing in residential and hotel sections must be the same; • residential and hotel units are functionally and visually integrated; • a hybrid model implies optional, but not mandatory, renting; • a single business entity manages the entire building, resort respectively; • individual ownership in the hybrid model implies accommodation units only, i.e. their interior area, but not ownership of common areas of the building; • these buildings are entered into cadastre as business buildings intended for hospitality activities. The investor's profit is also generated by selling of residential units and

	by hotel operations. Namely, the selling of residential section is not sufficient to recover investment, since major part of the building (complex) remains under the investor's ownership. Incentive measures would relate only to hybrid hotels and mixed-use resorts where residential area does not exceed 50% of the total area, and which will be managed by a renowned world brand. We emphasize that item 2 of the proposed incentive model does not apply to the residential component of the hybrid hotel and mixed-use resort. The incentive model for investing in hybrid hotels includes: • Reduction of VAT on other services to the VAT rate applicable to accommodation; • Relief of the obligation to pay property tax in the period of 10 years (except for residential component); • Relief of the obligation to pay taxes and surtaxes on personal income in the period of 10 years; • Relief of the obligation to pay fees for regional water supply system; • Abolishing of payment of fees for utilities equipment for the hotel component of hotels.
Rehabilitation of existing hotels which are not functioning	The incentive model, whether for hybrid hotels or for standard hotels, would apply to 4 and 5 star hotels, regardless of the place where a hotel is rehabilitated, i.e. to the territory of the whole of Montenegro. When rehabilitating hotels in zones which are recognized by a planning document as tourism areas, it is possible to select and develop either a model of standard hotels or a model of hybrid hotels. If only ¼ of accommodation capacities in hybrid hotels is the residential component, incentives for standard hotels would apply. The existing hotels which are not functional, and which can be reconstructed and thus brought to the level of 4* and 5*, require that additional incentive measures are provided in terms of exemption from payment of import VAT for material equipment, which is necessary for the reconstruction of 4* hotels, given that reconstruction in most cases is more expensive than construction.

Annex 6 State Aid regulations in Montenegro

In August 2014, the Ministry of finance adopted the Rulebook on the list of state aid rules [64] and its amendments[65] which provided for direct implementation of, inter alia, the EC Guidelines on environmental protection and energy state aid for the period 1 July 2014–31 December 2020[66].

[64] Official Gazette of Montenegro, no. 35/14
[65] Official Gazette of Montenegro, no.2.15
[66] 52014XC0628 (01), SL C 200, 28.6.2014, pages 1–55

The Guidelines set out 15 areas that the Commission believes merit support whether **in the form of investment aid, operating aid or both.** The areas and the appropriate types of aid are set out below:

Investment aid	Operating aid	Investment and operating aid
• early adaptation to future EU standards; • environmental studies; • district heating and cooling; • resource efficiency and waste management; • remediation of contaminated sites; • aid for CO2 capture, transport and storage (CCS); • energy infrastructure;	in the form of tradable permits; • in the form of reductions in or exemptions from environmental taxes; • in the form of reductions in or exemptions from levies imposed on energy consumers intended to fund electricity from renewable sources;	• renewable energy; • energy efficiency; • cogeneration; • generation adequacy measures (these can include capacity mechanisms); and • aid for exceeding EU Standards for environmental protection.

It should be noted that where the area may be entitled to both investment and operating aid there is a rule preventing double recovery / over compensation in both mechanisms. To achieve this, the investment aid entitlement should be taken into consideration when deciding on the level of operating aid.

Areas excluded from the Guidelines include:

- the design and manufacture of environmentally friendly products, machines or means of transport with a view to operating with fewer natural resources and action taken within plants or other production units with a view to improving safety or hygiene;
- the financing of environmental protection measures relating to air, road, railway, inland waterway and maritime transport infrastructure;
- stranded costs;
- State aid for research, development and innovation which is subject to the rules set out in the Community framework for State aid for research and development and innovation;
- State aid to biodiversity measures.

The Guidelines did not cover measures which fall within the General Block Exemption Regulation (GBER), except if they are subject to a competitive bidding process which is presumed to result in minimum levels of aid. Tax exemptions and reductions in environmental taxes do not require an individual notification.

Individual aid granted on the basis of an aid scheme is subject to the notification obligation pursuant to Article 108(3) of the the Treaty on the Functioning of the European Union (TFEU), if the aid exceeds the notification thresholds laid down in the EEAGuidelines and is not granted on the basis of a competitive bidding process:

- Investment aid: EUR 15m for any one undertaking

- Operating aid for renewable energy and/ combined production of renewable heat: when generation capacity per site exceeds 250MW
- Operating aid for bio-fuel production: when production exceeds 150,000 tonnes per year
- Operating aid for co-generation: capacity exceeding 300MW
- Aid for energy infrastructure: EUR 50m for any one undertaking in each investment project
- Aid for carbon capture and storage: EUR 50m for each investment project
- Aid for generation adequacy capacity: EUR 15m for each undertaking and project.

The measures must also be compatible with other aspects of the EU regulations, most notably the free movement rules of Article 34 of TFEU and taxation in Article 110 TFEU. The criteria are that the measure:

- contributes to a well-defined objective of common interest;
- is needed in order to remedy a well-defined market failure;
- is appropriate to address the objective of common interest;
- incentivises market players to behave differently from how they would if the measure were not implemented;
- is proportionate;
- avoids major negative effects on competition and interstate trade; and
- is transparent as to both its form and its implementation.

Aid for energy from renewable sources

Operating aid as a premium for energy from renewables- For aid for renewable energy to be deemed compatible, the Guidelines set out criteria that must be fulfilled:

To encourage market integration by renewables generators, they will be required to sell their electricity directly into the grid and become subject to market obligations and the following conditions will apply to all new aid schemes by 1 January 2016: (i) aid granted by premium will oblige generators to sell directly into the market; (ii) aid beneficiaries will be subject to standard balancing responsibilities unless a liquid intra-day markets exist; and (iii) provisions are made to ensure that there is no incentive to generate electricity under negative prices.

The above conditions do not apply to installations with a generating capacity of under 500 kW and demonstration projects except for electricity from wind energy where an installed capacity of 3MW or 3 generation units applies.

During the transitional phase from 2015 to 2016 at least 5% of the aid is granted by way of competitive bidding on the basis of clear, transparent and non-discriminatory criteria unless Member States could demonstrate that: (i) there is only a very limited number of projects or sites that would be eligible; (ii) the competitive bidding process would result in higher support levels; and (iii) a competitive bidding process would result in low project realisation rates.

There is an automatic presumption of proportionality where the bidding process is open to all renewable generators on a non-discriminatory basis. However, it is permitted to limit the bidding process to specific technologies where opening the process up would be detrimental regarding any of the following: (i) the longer term potential of a new and innovative technology; (ii) the need to achieve a diverse energy mix; (iii) network constraints and grid stability; (iv) system integration costs; or (v) the need to avoid distortions in the raw materials market that may be caused by biomass. Aid may be granted without competitive bidding for installations with a generating capacity of under 1MW and demonstration projects except for electricity from wind energy where an installed capacity of 6MW or 6 generation units applies.

The aid will only be granted until the point at which the costs of the plant have been fully depreciated in accordance with normal accounting rules. The exception to this is biomass which, due to the low start-up costs and low running costs, will be treated differently.

Operating aid in the form of green certificates for renewable energy - Aid in this form will be supported if there is evidence that such support: (i) is essential to support the viability of the renewable energy sources concerned; (ii) does not result in overcompensation looking at the aggregate cost of the scheme over time and across technologies or for individual less deployed technologies; and (iii) does not dissuade renewable generators from becoming more competitive.

The treatment of different technologies:

CCS –the following State aid criteria have been set out: (i) any aid that is given must be targeted at the capture technology on the generating station; (ii) the support is for the funding gap taking into account other green entitlements that may be available; and (iii) the distortive effect of the aid is considered in the light of beneficial effects such as knowledge sharing agreements, third party accessibility and any positive effect that the technology may have on other fossil fuel powered plants owed by the beneficiary.

Biomass - in order to get state aid it must be proved either that the operating costs after depreciation are higher than the market price of energy or that the use of fossil fuels is economically advantageous. Both permissions are subject to the same three conditions: (i) that the aid is only granted on the basis of the energy generated from renewable sources; (ii) that the support is structured to ensure that the compensation only covers the difference between the variable operating costs and the market price; and (iii)a monitoring mechanism is in place to ensure that the support is only given when the variable operating costs are higher than the market price.

Bioliquids –Bioliquids should not receive support post 2020 unless they meet the sustainability criteria. Bioliquids and advanced bioliquids (those produced from crops other than starch rich crops, sugars and oil crops) are subject to the same permission criteria for aid unless the alternative criteria for advanced bioliquids are applicable.

Aid for energy infrastructure to demonstrate the need for aid for infrastructure the applicant has to show that tariff financing is insufficient and the Commission must pass each project on a case-by-case basis and in doing so examine the extent to which the infrastructure is open to third party

access and whether the tariff structure will produce the required outcome. The same will apply as with those connected to proportionality. The only difference is that the total of the aid should not exceed 100% of the eligible costs . Where the infrastructure in question is subject to internal market rules, the Commission will deem it not to have an adverse effect in terms of competition.

Annex 7 Public Private Partnerships

According to the Law on Concessions, a concession is defined as the right to:

- use the State-owned natural wealth, goods of general use and other goods of general interest ("extraction concessions"); or
- perform activities in the public interest ("public services concessions"); and
- construct, manage, maintain, operate and hand over the structure to the concession grantor at the end of the contracted period ("public works concessions").

The concession grantor can be Parliament, the Government or a municipality.

The duration of a concession can go up to 30 years when the concession is awarded by the Government or a municipality or up to 60 years when the concession is granted by Parliament. The duration of the concession can be extended for a period which may not exceed half of the initially contracted period with the approval from the Commission for Concessions.

A concession is required to be awarded on the basis of a public competition procedure, although several exemptions from this procedure are allowed. The Law on Concession provides for:

- An open procedure;
- A two-stage procedure with the pre-qualification of tenderers; and
- An accelerated procedure (simplified procedure for the award of concessions with duration of up to three years).

The open public bidding is implemented by an ad hoc tender commission. Depending on the subject of the concession, there are different criteria for evaluating the bids. The deadline for the delivery of the ranking to the competent authority is 30 days from the date when the bids were opened. The final decision on the allocation of the concession is adopted by the conceding authority (government, parliament, or municipality), within a month from the date of the delivery of the ranking by the tender commission.

The two-phase procedure consists of two phases of "competition" and bidding for concessions. The first phase is a qualifier. For the concessions lasting for up to three tears, the so-called shortened process with no public debate is implemented. The deadline for the delivery of bids in this process is 15 days, and the deadline for the establishment of the ranking of bidders is 20 days. The provision stipulating the possibility not to have the legal obligation to have a public debate in the shortened process is a novelty in the Montenegrin legislation.

The Concession Contract is concluded within 15 days from the date of the decision on the allocation of the concession.

Since the entry into force of the Law on concessions on 12 February 2009, the following secondary regulations have been adopted:

1. Regulation on the guidelines for the implementation of the public tender in the open two-tiered concession allocation process[67];

2. Guidelines on the content and management of the register of concession contracts[68]

Montenegro is currently in the process of drafting of a new PPP legislation. The new law should cover both authority-pay and user-pay PPPs. The law is expected to define PPPs and set out a new institutional framework and procedures for the preparation and award of all types of PPPs. It should substitute the Law on Concessions, the Law on Participation of the Private Sector for the Delivery of Public Services and over 20 sectorial laws (mining, forestry, water management, education, transport and maritime affairs etc.) which, in some of their provisions, deal with the cooperation between the public and the private sectors in the delivery of public services.

The Government of Montenegro has opened all the sectors to the PPP model, including tourism. Examples of successful Public private partnerships are presented below.

Orascom - Lustica Development	During the fourth quarter of 2009, Orascom Development Group entered into an agreement with the Government of Montenegro to develop an integrated destination on the Mediterranean Traste Bay. The total land bank for the project amounts to 6.8 million m² in Lustica, in the municipality of Tivat The integrated project is planned to offer 2,080 residential units, seven hotels with a total capacity of 1,370 rooms, 2 world-class marinas on the Adriatic Sea with 170 berths, an 18-hole golf course, a Thalasso Centre, commercial facilities, a town center, and basic infrastructure requirements. The destination presales were launched during 2012 along with the initial construction of the access roads, clearing and the marinas. In the future tourist city, ODH will own 90% of the shares, while Montenegro will be the owner of the remaining 10%. The project will be the first certified eco-labeled development in Montenegro.
Mall of Montenegro	the multi-functional center in the heart of Podgorica, comprises two different aspects of shopping: Green Bazaar and a modern shopping mall. It is realized as the first private-public partnership project in Montenegro between the local partner-Municipality of Podgorica and the foreign partner-Turkish company Gintas Construction Contracting and Trade Inc. The mall features fashion stores, hypermarket, bank, restaurants, cafes and modern entertainment facilities. The RAMADA PODGORICA CITY Hotel & Convention Centre is a part of Mall of Montenegro complex, under the international brand RAMADA. It was opened in 2012. Besides its core

[67] Official Gazette of Montenegro, no. 67/2009
[68] Official Gazette of Montenegro, no. 47/2009

	activity, general construction and contracting, the Gintas Group is providing the full specter of activities related to land development, tourism, industrial and commercial international trade.
Tivat bus station	At the location of the temporary bus stop at Zupa, Bijelo Polje-based private company Mesopromet-Franca has built a modern bus station on a gross area of 2,1 thousand m2, based on the contract on mutual investment signed with the municipality of Tivat. The municipality invested a lot of 95000 m2 at Zupa in the mutual project and enabled an investor not to pay for utility services, while Mesopromet invested more than EUR 5,5 mil in the construction of the entire complex which, apart from a bus station, comprises construction of a shopping center on almost 3 thousand m2 and a four-star hotel on 2.500 m2. The station was opened in May 2015. Mesopromet is building a shopping mall and a hotel for its own needs.

Annex 8 Example of roles and responsibilities of governance bodies

Bearing in mind the draft law on the environment and planned establishment of the Eco Fund, seems to be the most rational solution to organize the NTCF as a sub program or organizational unit within that fund.

In this case, the Fund would have the status of a separate department managed by the Assistant Director.

The organizational structure of the NCTF unit will largely depend on the size of the Eco fund, the volume of its operations, and its needs.

The Managing Board shall be responsible for: (i) setting the strategic direction of the Fund, its objectives and milestones; (ii) financial oversight and budget proposals review to ensure consistency with the strategic direction; (iii) building coherence among stakeholders; (iv) contributing to advocacy and leverage of resource mobilization initiatives aimed as securing contributions to the Fun etc..

In doing so, the Managing Board shall perform the following duties:

- make decisions on the Fund's operations,
- propose the work program and annual plan to the Ministry of sustainable development and tourism for its approval,
- propose the multiannual work program to the Government for its approval , through the Ministry of sustainable development and tourism;
- consider annual performance report, financial projections and financial statements of the Fund,
- establish the spending priorities of the Fund;

- Approve specific operational policies and guidelines, including for programming, project cycle, administration, and financial management;
- Establish a framework for the monitoring and evaluation of performance and the financial accountability of activities supported by the Fund and any necessary external audit;
- Develop working and coordination arrangements with other relevant bodies and other relevant international institutions
- upon a proposal by the Advisory Board , select project to be financed , making decision on the amount of resources each project will receive from the Fund;
- approve reports of beneficiaries who have received funding from the Fund,
- Perform control on the generation of revenues and ensure disbursements are made in accordance with legislation;
- Ensure transparency of the activities of the Fund;
- approve the regulation on internal organization and job classification and oter general acts of the Fund, upon a proposal by the Director,
- perform also other duties in line with the law.

The Managing Board shall operate and make decisions at the meetings and its performances shall be recorded. Decisions shall be make through voting by the majority of the total number of the members.
The Rules of Procedure shall detail the activities of Managing Board.
Professional – administrative activities for the Managing Director operating shall be performed within the Fund.

The Chairman of the Managing Board shall perform the following:
- Represent the Managing Board;
- Sign contracts for implementation of projects financed by the Fund;
- Maintain and ensure cooperation with similar regional and international institutions on issues on common interest;
- Maintain and ensure cooperation with international finance institutions;
- Convene and chair the Managing Board meetings;
- Propose the agenda for the Managing Board meetings;
- Moot the discussion regarding the issues from the Managing Board scope of competences;
- Sign the regulations adopted by the Managing Board;
- Take care of the application of the Rules of Procedure of the Managing Board as well as the other general regulations of the Fund;

The Advisory Board shall ensure that the high professional and expert standards are met with regards to the respective applications. It provides detailed evaluations of the applications, based on the related selection criteria, and make observations on the requested budgets. The Advisory Board reports are transmitted to the Managing Board, along with all proposal materials, for further evaluation and final decision.

The Advisory Board are composed of international experts with broad expertise representing a variety of domains and disciplines. Its method of work and decision making and other matters relevant for its work are governed in more details by Fund's Statute.

The Director shall be appointed to and relieved of duty by the Managing Board. Prerequisites to be appointed as the Director shall be defined by the Statute. The term of office of the Director shall be four years, with the possibility of one reappointment. The Director may not be a member of the Managing Board.

The Director of the Fund shall:

- organize and manage the work and operations of the Fund,
- represent the Fund,
- ensure and be liable for the legality of the Fund's functions,
- take care of the professional approach to the Fund's functions,
- suggest general acts of the Fund, and shall table them to the Managing Board for its approval,
- take care of the use and disposal of the assets of the Fund,
- enforce decisions taken by the Council and the Managing Board,
- decide on the rights and obligations of the staff of the Fund deriving from the labor relations, in accordance with the law,
- prepare required annual plans and financial statements,
- perform other duties provided for by the law.

Annex 9 Definitions of the main elements of results measurement framework

Indicator	A variable relevant to assess the degree of achievement of a given objective. According to the OECD "a quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect changes connected to an intervention, or to help assess the performance of an actor"
Result	Output, outcome and impact of a supported project
Input	The resources (financial, human and physical) allocated to a project with the aim of achieving defined results
Output	Specific, direct deliverables of the project
Outcome	Reflect to the effects of the project.
Impact	Long-term effects produced by the project.