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FOSTERING THE CIRCULAR ECONOMY THROUGH FISCAL POLICY: INSIGHTS FROM ALBANIA AND THE WESTERN BALKANS

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Abstract
The circular economy (CE) provides a revolutionary economic model for sustainable development by reducing waste, reusing resources, and encouraging eco-friendly practices. Fiscal policy plays a crucial role in shaping consumer behavior within the circular economy by using taxes, subsidies, and incentives to stimulate sustainable consumption. This study examines the relationship between fiscal tools and circular economy principles, focusing on their implementation in the Western Balkans, with a main focus on Albania. Fiscal policy tools, such as environmental taxes, subsidies for green innovations, and incentives for reducing waste, can potentially shape consumer behavior by promoting sustainable consumption and production practices. However, the Western Balkans region faces distinct socio-economic and institutional obstacles that hinder the adoption of circular practices. In Albania, recent initiatives, such as waste management reforms and tax incentives for eco-friendly businesses, demonstrate initial efforts toward CE integration. Despite these efforts, limited public awareness, fragile institutional structures, and lack of enforcement mechanisms remain significant barriers to progress. In this context, this paper points out major challenges in Albania in promoting circular practices. By addressing these challenges, Albania and its neighboring countries can accelerate their transition to a circular economy, paving the way for sustainable economic development and increased environmental resilience. In conclusion, the main recommendations of this paper involve implementing a more integrated fiscal policy framework aimed at both producers and consumers, enhancing public awareness initiatives to advance circular economy principles, and fostering stronger collaboration between government, businesses, and civil society. Additionally, it is recommended that coordinated regional strategies be developed in the Western Balkans to ensure alignment with European Union objectives and global sustainability goals.

Keywords: *circular economy, fiscal policy, Western Balkans, Albania, sustainability.*
JEL Classification: Q58, H23, Q01, H50.

1. INTRODUCTION

The rapid increase in environmental pollution, depletion of natural resources, and climate change have positioned the circular economy (CE) at the forefront of global debates on sustainable development. Unlike the traditional linear economic model of "take, make, dispose," the circular economy aims to decouple economic growth from resource consumption by promoting systems of reuse, recycling, and waste reduction. In doing so, materials retain their value for as long as possible, minimizing environmental harm and enhancing socio-economic resilience in the long term. This study examines how fiscal policy can serve as a transformative tool to support the transition to a circular economy in Albania and the Western Balkans. It analyzes the role of environmental taxes, green subsidies, and CE-oriented fiscal incentives in promoting sustainable practices, reducing waste, and aligning national systems with the European Green Deal and the EU Circular Economy Action Plan. The research also highlights regional disparities, institutional challenges, and the growing momentum driven by EU integration efforts and cross-sectoral cooperation. In Europe, the transition to a circular economy is not only an environmental necessity but also a strategic pillar of the Green Deal and Circular Economy Action Plan (European Commission, 2020). These frameworks emphasize the importance of policy instruments – particularly fiscal tools – to stimulate circular investments, foster sustainable consumption, and internalize the costs of pollution and waste into market prices. Albania and the Western Balkans are at a critical juncture in this transition. While EU integration remains a key driver of environmental and economic reforms, the practical implementation of CE principles remains limited. Countries like Albania face challenges such as weak institutional capacity, low public awareness, fragmented inter-institutional cooperation, and underdeveloped fiscal mechanisms. Nevertheless, recent years have seen important progress, including the adoption of national waste management strategies, guidelines for green public procurement, and targeted fiscal incentives. Fiscal policy emerges as a central lever in this transformation. As a macroeconomic tool, it can influence market behavior through taxes, subsidies, and tailored incentives aligned with CE objectives. Environmental taxes, green subsidies, and fiscal relief can reshape consumer preferences, promote green entrepreneurship, and support investments in recycling, eco-design, and resource efficiency. However, the effectiveness of these tools depends on clear policy design, robust implementation, and regional cooperation. This article explores the role of fiscal policy in advancing the circular economy in Albania and the Western Balkans. It assesses the scope, impact, and limitations of current fiscal instruments and identifies opportunities for policy innovation and alignment with EU standards. The study aims to contribute to the growing literature on CE implementation in developing economies by analyzing national strategies, regional trends, and comparative policy frameworks.

The core research questions include:

a) Which fiscal tools are currently employed to promote circular economy practices in Albania and the Western Balkans?
b) How effective are these instruments in facilitating the transition to CE?
c) What policy gaps, institutional barriers, and regional disparities hinder progress?
d) How can fiscal policy be restructured to better align with CE principles and EU integration goals?

1.1. Methodology

This study adopts an integrated methodological approach of a qualitative and comparative nature, aimed at analyzing the role of fiscal policies in facilitating and accelerating the transition toward a circular economy (CE) in Albania and the Western Balkan countries. Grounded in the methodological guidelines of the OECD (Svatikova, Brown & Börkey, 2025), the research examines existing policies, national and international strategic documents, and international best practices related to the use of fiscal instruments for environmental objectives. Central to the analysis are fiscal tools such as environmental taxes, green subsidies, tax incentives, and extended producer responsibility (EPR) schemes, which are considered key mechanisms for influencing the behavior of consumers and businesses and for guiding markets toward sustainable models of production and consumption. The analysis relies on institutional sources that provide a clear political and regulatory context, including the National Strategy for Integrated Waste Management 2020–2035 (Ministry of Tourism and Environment), the European Commission's annual progress reports for the region, regional assessments conducted by UNEP and the EEA, and the World Bank's 2022 Green Transition Assessment. These documents contribute to identifying institutional and operational challenges, as well as opportunities for integrating fiscal instruments in alignment with CE objectives. The methodological approach focuses on three main dimensions:

1) the identification of existing fiscal instruments aimed at promoting the circular economy;
2) the assessment of the effectiveness of these instruments in altering individual and institutional behavior; and
3) a cross-country comparison among Western Balkan countries to highlight implementation gaps and extract best practices that can serve as transferable models.

2. LITERATURE REVIEW

The transition to a circular economy (CE) is increasingly recognized as a strategic priority for sustainable development, aiming to decouple economic growth from negative environmental impacts (Kirchherr *et al*., 2018; Ghisellini *et* *al*., 2016). CE principles focus on maintaining resource value, minimizing waste, and restoring natural balance. Kirchherr *et al*. (2018) emphasize CE as rooted in resource efficiency, recycling, and regenerative design, while Ghisellini *et al*. (2016) describe it as a rethinking of production and consumption aligned with the balance between economic development and environmental preservation. Circular economy policies are multidimensional, with environmental, economic, and social implications. Economically, CE promotes innovation, generates new employment opportunities, and enhances resource efficiency. Socially, it contributes to improved public health and heightened environmental awareness, while environmentally, it reduces landfill dependency and enhances soil and water quality. A key driver of CE is fiscal policy. According to OECD (2017), instruments such as environmental taxes, green subsidies, and targeted incentives are critical to financing circular solutions and integrating environmental costs into market mechanisms. Fiscal policy is not merely a revenue tool but a strategic framework to restructure production and consumption. This includes environmental taxes on pollution and resource use (Svatikova, Brown & Börkey, 2025), green subsidies for eco-innovation (Kalmykova *et al*., 2018), and CE-specific incentives such as VAT reductions on recycled products (World Bank, 2025). However, as Kirchherr *et al*. (2018) argue, such measures are insufficient without strong institutional cooperation and public education (UNEP, 2020; UNDP Albania, 2021). In the Western Balkans, countries face structural challenges and emerging opportunities in advancing CE. This transition requires reforming production-consumption models, integrating technological innovation, and strengthening institutional capacity. EU integration serves as a key driver of this process, demanding alignment with the European Green Deal and the CE Action Plan, which aim for a climate-neutral, resource-efficient, and competitive economy by 2050 (European Commission, 2020). In line with these goals, Albania has initiated the integration of CE principles into national policy frameworks. The National Waste Management Strategy 2021–2035 outlines objectives for waste reduction, increased recycling, and implementation of the "polluter pays" principle (Ministry of Tourism and Environment, 2020). Additionally, the Albanian government has introduced fiscal incentives for green businesses, including VAT exemptions for clean technology and incentives for the use of recycled materials (Ministry of Infrastructure and Energy, 2021; KPMG Albania, 2023; OECD, 2024). Nonetheless, implementation remains fragmented due to limited public sector capacity, weak inter-institutional coordination, and low public awareness of CE (The Balkan Forum, 2020). Accelerating this transition requires not only financial and technical support but also strong political and institutional commitment across all levels of governance. Across the Western Balkans, countries face specific challenges and opportunities related to CE. According to the World Bank (2022) and UNEP (2020), EU integration acts as a major catalyst, requiring alignment with the Green Deal and CE Action Plan

(European Commission, 2020). Albania has taken steps such as adopting the National Waste Strategy and green fiscal incentives, but still struggles with weak institutional enforcement, inter-agency fragmentation, and limited public education (EEA, 2020; UNDP Albania, 2021). Cross-country comparisons reveal notable differences in CE instrument implementation, particularly in green public procurement. Serbia and North Macedonia have made substantial progress in institutionalizing green procurement practices, including legal provisions, technical guidelines for public authorities, and donor-funded pilot projects. These countries have benefited from technical assistance and capacity building to integrate sustainability criteria in procurement procedures (European Commission, 2024a). In contrast, Montenegro and Bosnia and Herzegovina face significant hurdles due to limited administrative capacity, fragmented institutional mandates, and lack of clear policy frameworks. In these countries, weak inter-institutional coordination hampers the development of coherent national and local sustainability strategies. Common regional challenges include lack of reliable data, political fragmentation, and behavioral obstacles such as low public awareness, resistance to change, and the dominance of the informal economy, which limits the inclusion of informal actors in circular systems (European Commission, 2024b; Ignjatović *et al*., 2023). In this context, Kalmykova *et al*. (2018) stress the importance of integrating CE principles into public governance and national economic strategies. This includes aligning legislation, building inter-sectoral institutional structures, and introducing fiscal and regulatory incentives that foster innovation and ecologically responsible behavior (Kalmykova *et al*., 2018; Ignjatović *et al*., 2023).

3. FISCAL TOOLS AND THE IMPLEMENTATION OF THE CIRCULAR ECONOMY IN ALBANIA

Albania has made significant progress in its transition toward a circular economy (CE), in alignment with its commitments to European Union (EU) integration and the implementation of the European Green Deal objectives. These efforts have materialized through the formulation of national policies, the adoption of incentivizing fiscal instruments, and increased public awareness on sustainable resource management. A key strategic document in this context is the National Waste Management Strategy 2021–2035, which aims to reduce waste generation, increase recycling rates, and implement the "polluter pays" principle (Ministry of Tourism and Environment, 2020). In addition, the National Environmental Protection Program 2020–2030 integrates CE principles into its long-term environmental objectives (European Commission, 2023). On the fiscal front, concrete measures have been introduced, including value-added tax (VAT) exemptions for renewable energy equipment and clean technologies, intended to stimulate investment in environmentally friendly sectors (Ministry of Infrastructure and Energy, 2021). The Law on Technological and Scientific Parks has also provided tax relief for enterprises contributing to sustainable and circular production solutions. Albania is actively involved in regional and international programs supported by the EU, OECD, GIZ, and the World Bank, which aim to strengthen institutional capacities and embed CE principles into national economic policies. Nevertheless, empirical data reveal persistent challenges: the recycling rate in urban areas remains at only 18.81%, while the coverage of waste separation reaches just 40% (INSTAT, 2023; Municipal Reports, 2023). These figures highlight the need for further reinforcement of existing measures and more effective implementation of circular economy-related policies, as presented in table 1:

Table 1. Circular Economy Indicators in Albania (2023–2024)

Indicator	Value
Recycling Rate (urban areas, 2023)	18.81%
Renewable Energy Share in Final Energy	38.5%
Environmental Tax Revenue (% of GDP)	2.5%
Households Benefiting from Green Subsidies	24,000 (2022–2024 est.)
Circular Startups Supported by the State	~65
Waste Separation Coverage (urban)	40%

Source: Compiled by the author based on data from INSTAT, EEA, Eurostat, OECD, Ministry of Infrastructure, AKSHI / Ministry of Finance, and Municipal Reports (2022–2024)

Currently, 38.5% of final energy consumption in Albania is derived from renewable sources, reflecting the positive impact of tax exemptions and state support for clean technologies (Eurostat). Environmental tax revenues account for 2.5% of the country's GDP, indicating an initial level of fiscal integration into circular economy (CE) policies (OECD). Between 2022 and 2024, approximately 24,000 households have benefited from green subsidies, and around 65 startups operating in the circular economy sector have received public support (Ministry of Infrastructure; NAIS / Ministry of Finance). However, as illustrated in Figure 1, the implementation of environmental taxes remains uneven across sectors, with the energy sector achieving relatively higher effectiveness (3/5), while the industrial sector lags significantly behind (1/5). This disparity highlights the need for stronger institutional coordination and a more balanced fiscal policy approach to support CE objectives.

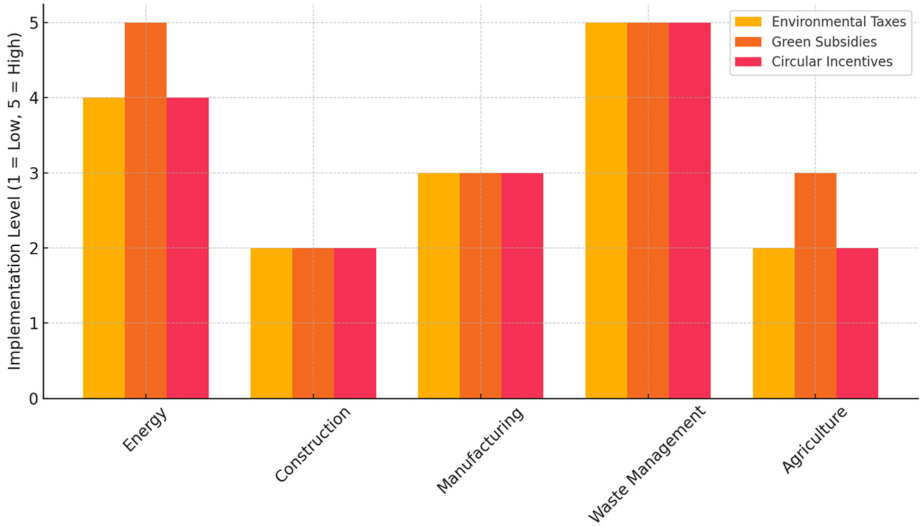

Figure 1. Fiscal Tools by Sector in Albania
(Implementation Level: 1 = Low, 5 = High)
Source: Compiled by the author based on qualitative assessments from national policy documents and international institutional reports (2022–2024)

Beyond the implementation of environmental taxes, Albania has begun to develop additional fiscal instruments and green subsidies to support the transition toward a circular economy (CE). These include grants for renewable energy, support for recycling and sustainable packaging, as well as funding for research and development in CE-related technologies (Kalmykova *et al*., 2018; UNDP Albania, 2021). However, access to these programs by businesses is often constrained by complex administrative procedures and limited institutional capacities (EEA, 2020). In parallel, more targeted fiscal incentives have been introduced, including Extended Producer Responsibility (EPR) schemes, tax deductions, and VAT exemptions for "eco" enterprises operating in Technological and Economic Development Zones. Nevertheless, these measures remain at a pilot stage and are less advanced compared to those in North Macedonia and Serbia (World Bank, 2022). Moreover, policy implementation remains inconsistent, fragmented, and poorly coordinated across institutions, while the absence of standardized data and monitoring mechanisms weakens impact evaluation (UNEP, 2020; EEA, 2020). As highlighted by the OECD (2022), enhancing the effectiveness of fiscal instruments and improving inter-institutional coordination are critical elements for consolidating the circular economy agenda in Albania.

4. COMPARATIVE EXPERIENCE FROM THE WESTERN BALKANS

The Western Balkans is currently at a critical juncture in its transition toward a circular economy (CE), driven by the objectives of sustainable development and the ongoing European integration process. While all countries in the region face similar structural and institutional challenges, their approaches and outcomes in implementing CE vary significantly. Albania has made notable progress through national policy initiatives and donor-supported programs; however, its overall performance remains moderate when compared to neighboring countries. North Macedonia stands out as one of the regional frontrunners in adopting advanced fiscal practices for CE, including reduced VAT rates for recycled products, green public procurement, and fiscal incentives for circular investments. Serbia has also made considerable advancements, implementing Extended Producer Responsibility (EPR) schemes in the packaging and electronics sectors, establishing circular economy clusters, and providing fiscal stimuli for recycled goods and eco-innovation services. These initiatives are financed through dedicated environmental taxes, and Serbia's institutional coordination is widely regarded as more effective, offering a potential model for countries like Albania. The table 2 presents a comparison of environmental tax revenues as a percentage of GDP across Western Balkan countries. Albania leads with a rate of 2.5%, followed by Serbia (2.4%) and Montenegro (2.3%). North Macedonia and Bosnia and Herzegovina report 2.1% and 2.0%, respectively, while Kosovo records the lowest level in the region at 1.8%. These figures indicate that Albania has achieved a relatively high level of environmental tax integration into its fiscal framework, whereas Kosovo still has considerable room for improvement in aligning its tax policies with environmental objectives.

Table 2. Environmental Tax Revenue as a Share of GDP in Western Balkans (2022-2023)

Country	Environmental Tax Revenue (% of GDP)
Albania	2.5%
Bosnia and Herzegovina	2.0%
Montenegro	2.3%
North Macedonia	2.1%
Serbia	2.4%
Kosovo	1.8%

Source: Compiled by the author based on international statistical databases and institutional reports (2023)

On the other hand, Montenegro, Kosovo, and Bosnia and Herzegovina remain in the early stages of developing a circular economy (CE). Montenegro has initiated green tax reforms aligned with the European Green Deal, yet significant administrative challenges and limited implementation capacity persist. Kosovo is experimenting with local-level pilot projects focused on waste recycling and reuse, including municipal tax credits and exemptions for circular construction initiatives. Bosnia and Herzegovina has undertaken a number of fragmented initiatives in green public procurement and support for small enterprises, often backed by international donor assistance. Meanwhile, Table 3 provides a comparative overview of green financing and energy efficiency measures in Albania, North Macedonia, and Bosnia and Herzegovina. Albania has implemented a broad range of initiatives, including subsidies for solar panels (targeting households and public institutions), energy efficiency renovations in schools and residences, as well as pilot subsidies for waste-to-energy projects. These efforts are supported by the EU's €1 billion energy support package, EU IPA funds, and UNDP programs. North Macedonia focuses on improving household energy efficiency by offering grants for thermal insulation, energy-efficient appliances, and support for energy audits and renovation interventions. Funding is provided through EU IPA funds and technical assistance from KfW and UNDP. Bosnia and Herzegovina offers cantonal-level grants for solar panels and heat pumps, energy efficiency upgrades targeted at SMEs, and has launched a pilot Green Innovation Fund. These programs are supported by GEF/UNEP, SIDA, and the Regional Cooperation Council (RCC). As a result, Albania stands out for the breadth of its interventions, North Macedonia for its emphasis on household energy efficiency, and Bosnia and Herzegovina for its decentralized, innovation-oriented approach targeting both households and businesses.

Table 3. Green Subsidy Programs in the Western Balkans

Country	Green Subsidy Programs	EU/International Support
Albania	- Subsidies for solar panels (households, public buildings) - Energy efficiency renovations in housing & schools - Waste-to-energy pilot subsidies	€1B EU Energy Support Package EU IPA funds UNDP
Serbia	- Biomass incentives for households & farms - Grants for public building insulation and LED retrofitting	EBRD Green Economy Financing Facility EU Delegation
North Macedonia	- Grants for home insulation and efficient appliances - Energy audits and retrofitting incentives	EU IPA funds KfW & UNDP
Montenegro	- Energy-efficient appliance rebates - Municipal grants for building retrofits - Low-interest loans for renewable installations	GIZ support WBIF (Western Balkans Investment Framework)
Bosnia & Herzegovina	- Cantonal-level grants for solar panels and heat pumps - SME-targeted energy upgrades - Green Innovation Fund pilot	GEF/UNEP SIDA RCC
Kosovo	- Pilot VAT exemptions for solar and eco-construction - Municipal co-financing for building insulation - Energy poverty relief subsidies	EU Energy Transition Grant Scheme Helvetas & UNDP

Source: Compiled by the author based on various institutional documents and donor-supported reports (2022–2024)

In terms of incentives for circular practices, the Western Balkan countries have begun to implement targeted measures to support the circular economy (CE), although these remain fragmented and largely in early stages. In Albania and Serbia, Extended Producer Responsibility (EPR) schemes have been introduced, requiring producers to assume responsibility for the collection and recycling of their products after use. North Macedonia has taken more advanced steps by reducing VAT rates for recycled products and repair services, as well as offering tax deductions for businesses investing in circular economy practices. Furthermore, in the region's Technological and Economic Development Areas (TEDAs), VAT exemptions and tax holidays are applied to enterprises adopting green production methods or holding ecological certifications. These fiscal incentives are complemented by pilot projects and grants for startups focused on recycling, sustainable design, and emerging CE technologies, as well as funding for research and development in this domain. Specifically, Montenegro has introduced reforms in green taxation and earmarked revenues for sustainable investment, while Kosovo is experimenting with municipal tax credits and exemptions for circular construction, fostering innovation in local governance. Overall, these initiatives reflect the region's growing commitment to transitioning toward a circular economy. However, achieving long-term impact will require enhanced institutional coordination, legal harmonization, and more substantial financial support to ensure the scalability and effectiveness of these measures.

Table 4. Fiscal strategies and regional strengths for each Western Balkan country, followed by key themes emerging across the region.

Country	Fiscal Strategy Highlights	Regional Strengths
North Macedonia	CE Roadmap, VAT incentives, green procurement	Policy alignment with EU CE objectives
Serbia	EPR schemes, tax-based incentives for producers	Private sector engagement in CE design
Montenegro	Green taxation reform, earmarked revenue	Fiscal transparency and reinvestment
Albania	TEDA-linked tax holidays, SME eco-certification	Early integration of CE into industrial zones
Kosovo	Municipal tax credits, circular construction exemptions	Innovation in local governance and pilot programs
Bosnia & Herzegovina	Cantonal grants for SME recycling adaptation	Subnational flexibility to foster local circularity

Source: Developed by the author using national policy frameworks, EU circular economy evaluations, and reviews of donor-funded programs (2022–2024)

Despite these differences, several common themes are evident across the region: an increasing effort to align with the EU Green Deal and the Circular Economy (CE) Action Plan, as well as the growing role of IPA funds and international donor assistance in shaping the CE agenda. Fiscal reform is progressing at varying speeds across the Western Balkans, with countries such as Serbia and North Macedonia demonstrating greater dynamism, while Albania and others remain in experimental or pilot phases. Major challenges persist, including the lack of standardized performance data, limited access of SMEs to green finance, and difficulties in local policy implementation. Recent reports (OECD, 2022; World Bank, 2022) emphasize the need to improve cross-border cooperation, enhance data sharing, and establish regional networks for innovation and CE-related startup development. The Western Balkans is at a critical juncture in its transition toward a circular economy, as part of broader sustainable development efforts and the EU integration process. Countries in the region have made moderate yet uneven progress in advancing CE principles, with an average performance score of 45.8% based on the 2024 Green Agenda Assessment. In this context, Albania, Montenegro, and Serbia lead the region, benefiting from stronger policy frameworks, early adoption of CE roadmaps, and participation in EU-supported initiatives. Albania has made notable progress in reducing material consumption, while Montenegro and Serbia have gradually expanded measures for recycling and resource efficiency. North Macedonia stands close to the regional average, with national strategies under development and several pilot programs. Meanwhile, Kosovo and Bosnia & Herzegovina lag behind due to weak institutional capacities, underdeveloped infrastructure, and high dependency on donor-driven projects. This disparity is also reflected in the CE performance index, where, according to Figure 1, Montenegro (48.0%), Serbia (47.0%), and Albania (46.0%) exceed the regional average, while North Macedonia (44.0%) is near the mean. Kosovo (41.5%) and Bosnia & Herzegovina (38.5%) report the lowest scores, highlighting more pronounced gaps in reform implementation, infrastructure development, and institutional readiness.

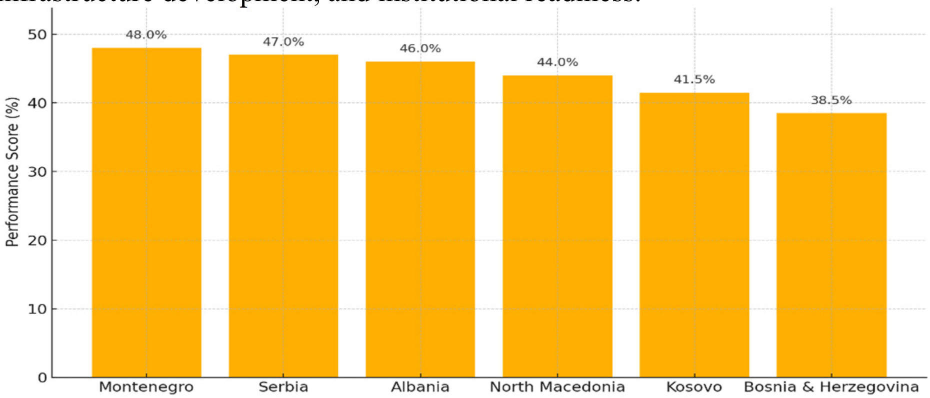

Figure 2. Circular Economy Progress in the Western Balkans (2024)
Source: Regional Cooperation Council (RCC). (2023)

Despite these differences, the region has strengthened cooperation through the adoption of national roadmaps for the circular economy (CE) and the participation of over 700 stakeholders in more than 460 interrelated initiatives since 2022. EU financial instruments – such as IPA II, the Western Balkans Investment Framework (WBIF), and the EU4Green Recovery Programme – continue to support infrastructure development and innovation linked to CE. Reports emphasize that in order to fully achieve the objectives of the circular economy, a deeper national commitment is required, along with improved governance and sustained coordination between public and private sector actors.

4.1. Challenges Facing Albania and the Region

Despite the positive steps taken, Albania and the other Western Balkan countries face substantial challenges in effectively integrating the circular economy (CE) into their fiscal policy frameworks (UNDP Albania, 2021; OECD, 2022). One of the most significant obstacles is the weak implementation of environmental taxes and incentive mechanisms – such as green subsidies – stemming from administrative constraints and limited inter-institutional cooperation between fiscal and environmental authorities. Insufficient monitoring capacity and inadequate, often non-standardized data systems further hinder an objective assessment of policy impacts (EEA, 2020). A second major challenge is the low level of awareness among businesses and consumers regarding the benefits of CE. Small and medium-sized enterprises frequently lack information on fiscal incentives and Extended Producer Responsibility (EPR) schemes, while consumers remain wedded to traditional linear consumption patterns, curbing demand for sustainable products (World Bank, 2022). Policy fragmentation and uneven implementation across municipalities exacerbate these issues, producing inconsistent and unsustainable outcomes at the national level. Many measures remain at the pilot stage, lacking a unified strategy and clear impact assessments (OECD, 2022; UNEP, 2020). Structural barriers – including high levels of informality, limited budgetary resources, and reliance on external funding – further complicate implementation. Consequently, a resilient transition to CE will require not only fiscal reform but also institutional consolidation, strengthened local capacities, and broader stakeholder engagement.

5. OPPORTUNITIES

Despite the structural and institutional challenges facing Albania and the Western Balkan region, there is significant potential to leverage fiscal policy as a tool to accelerate the transition toward a circular economy (CE) (OECD, 2022; UNEP, 2020). The European Green Deal and the Circular Economy Action Plan offer a comprehensive framework of support, including European Union funding and technical assistance for pilot projects and institutional capacity-building (European Commission, 2020). In this context, aligning national fiscal policies with EU directives is essential for effectively capitalizing on these opportunities. Fiscal instruments such as the expansion of environmental taxation, green subsidies, and tax exemptions serve as powerful tools to steer markets toward sustainable practices and stimulate the development of innovative CE technologies (Kalmykova *et al*., 2018). Strengthening and scaling up Extended Producer Responsibility (EPR) schemes across additional sectors can significantly enhance the impact of fiscal measures in promoting a circular economic model (World Bank, 2022). A major challenge, however, remains the lack of inter-institutional coordination and policy fragmentation between central and local levels. Establishing national platforms for cooperation and integrating fiscal objectives with CE strategies would enhance implementation effectiveness (UNDP Albania, 2021). Moreover, fiscal education and public awareness are essential for fostering the active participation of citizens and local communities (UNEP, 2020). Another serious barrier is the absence of standardized data and measurable evaluations. Developing a monitoring and reporting system would enable evidence-based policymaking (EEA, 2020). Finally, regional cooperation and support from EU funding instruments and international donors are crucial for building a competitive and sustainable circular economy in Albania and across the region. Strengthening regional collaboration will also help harmonize fiscal approaches and foster innovative CE networks, supported by donor assistance and EU resources (OECD, 2022). These steps are vital to advancing Albania and the Western Balkans toward a more resilient and competitive economic future.

6. CONCLUSIONS

This study underscores the critical role of fiscal policy in advancing the circular economy (CE) in Albania and the Western Balkans. While Albania has made commendable strides – particularly through environmental taxation, green subsidies, and incentives for clean technology – implementation remains uneven, fragmented, and constrained by institutional and administrative limitations. The recycling rate and waste separation coverage remain low, and access to fiscal instruments is often hindered by bureaucratic inefficiencies and insufficient public awareness. Nevertheless, Albania leads the region in environmental tax revenue as a share of GDP and has actively aligned its national strategies with the EU Green Deal and CE Action Plan.

A comparative analysis across the Western Balkans reveals significant disparities in policy development and implementation. North Macedonia and Serbia have demonstrated greater progress through targeted incentives, EPR schemes, and institutionalized green procurement, whereas countries such as Kosovo and Bosnia and Herzegovina lag behind due to structural and capacity-related barriers. Shared challenges – such as limited data availability, low SME access to green finance, and weak cross-level coordination – persist throughout the region. To maximize the transformative potential of fiscal instruments, deeper policy integration and harmonization with EU standards are imperative. Strengthening inter-institutional coordination, expanding fiscal incentives, and improving data collection mechanisms are necessary steps. Equally important is the empowerment of local actors and broader stakeholder engagement through education and awareness initiatives. Regional cooperation and sustained support from the EU and international donors will be crucial in bridging performance gaps and fostering scalable, innovative CE models. Ultimately, fiscal policy must evolve from isolated interventions into a strategic framework for long-term sustainable development.

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