



Financing in the field of the environment and climate change

Overview

Funding in the field of environmental protection is one of the elements of good environmental governance. All actors, from national institutions, through the business sector and local self-governments, to citizens' associations, play an important role in planning, monitoring and promoting the system of financing environmental protection.

Considering the numerous elements of environmental protection financing, **Coalition 27 has concluded that the system for financing environmental protection and climate change in the Republic of Serbia remains far from functional.** Indicators include: The structure and coordination of institutions (the inadequate and inefficient division of responsibilities among ministries, complicated procedures that slow cooperation between ministries and local self-governments, and an insufficient number of experts in institutions, etc.); budget planning and programming (poor implementation of planned projects resulting in budget surpluses and/or budget deficits, discrepancies between plans and programmes, and decision-making without the involvement of the public); spending and transparency of monitoring (it is difficult, and sometimes impossible, to obtain information about revenue and budgetary spending by local self-governments and to access environmental protection project documents, etc.); laws and bylaws (the abolition of purpose-specific allocation of funds raised from environmental protection fees, the inadequate legal basis for the Green Fund, and delays in the adoption of bylaws and decisions by local self-governments regarding the use of donor funds, etc.).

Particularly worrying is the lack of environmental protection funding from business/industry. Financial investment in environmental protection and climate change by the largest polluters in Serbia, such as Electric Power Industry of Serbia (EPS), remains insufficient. An analysis of EPS' business operations and recommendations for reform⁵ and increased investment, developed by

5 <http://fiskalnisanavet.rs/english/index.php>

the Fiscal Council, among other things, states: “EPS’s main problem lies in insufficient investments, which are the reason why its production has been dropping for several years and why it is **the largest polluter in Serbia**. And **EPS will have to invest almost €800 million until 2027 to bring its thermal power plants into compliance with environmental legislation and decrease its pollution to a reasonable level.**”

At the level of the local self-governments, there has been a negative trend in the allocation of environmental protection funding. In a survey about environmental protection funding in Serbia in the period 2010-2019, CSO Stanište Ecological Centre, states:

- **The number of local self-governments that have cancelled funding** for environmental protection has increased (from one municipality in 2013 to **25 in 2019**).
- In recent years, it has become apparent that municipalities and towns are planning less expenditure on environmental protection programmes. **Planned expenditure by many local self-governments is lower than current revenues generated from environmental protection fees.** In 2015, expected revenues from environmental protection fees were RSD 6.45 billion in total for all municipalities and towns. In 2016 environmental protection fees ceased to be allocated to purpose-specific budgets for environmental protection; in the same year, exactly RSD one billion less was allocated for environmental protection by municipalities and towns. In 2019, only RSD 4.62 billion was allocated. During the same period, revenue from environmental protection fees increased from RSD 4.5 billion to RSD 6.3 billion. The only reason for the reduction in planned expenditure on environmental protection is that amendments to the Budget System Law for municipalities and towns allowed the reallocation of these funds to other programme areas.⁶

6 <https://staniste.org.rs/wp-content/uploads/2019/10/Studija-Finansiranje-ZZS.pdf?script=lat>

In 2019 the Budget Law of the Republic of Serbia for 2019 allocated the Ministry of Environmental Protection a budget of RSD 6.8 billion. Following reallocations, the budget for the Ministry was later raised to almost RSD 7.4 billion. Of this amount, RSD 345.5 million was allocated to the Environmental Protection Agency, RSD 3.6 billion to the Green Fund of the Republic of Serbia, and RSD 3.4 billion for the operation of the Ministry. According to available data on budget expenditure in 2019, the Environmental Protection Agency spent 96.07% of its allocated budget, 95.89% of the principal budget of the Green Fund was spent, but only 75.62% of the Ministry's operational budget was spent (almost one billion RSD less than the amount planned). Total budget execution by the Ministry, when all three mentioned budget chapters are taken into account, was 89.2%.^{7,8,9,10} It is important to note that public access to documents about projects financed by through Green Fund, which are implemented by different legal entities and account for half of the total budget of the Ministry of Environmental Protection, is limited.

At a national level, the Fiscal Council's recommendations for 2020 highlight numerous deficiencies in the existing and planned national funding framework for environmental protection. Among other issues, the Fiscal Council has highlighted **that in 2019 there was fiscal space to increase investment in communal infrastructure and environment protection, but that this space has not been used.** According to the Fiscal Council, the Government of the Republic of Serbia should transparently provide all necessary funds for these investments in the budgets of the competent institutions. The second prerequisite for the actual implementation of planned projects is that the Government should ensure good coordination between the numerous institutions that are currently responsible for project implementation in the field of environmental protection (the Ministry of Environmental Protection, the Ministry of Construction, Transport and Infrastructure, the Public Investment Management

7 All data on the funds for 2019 taken from the Republic of Serbia Budget Law for 2019, available at: <http://www.mfin.gov.rs/UserFiles/File/zakoni/2018/Zakon%20o%20budzetu%20za%202019%20godinu.pdf>

8 Amendments to the Law on the Budget for 2019, "Official Gazette of the Republic of Serbia", No. 72/2019.

9 <https://www.ekologija.gov.rs/wp-content/uploads/informator/IZVR%C5%A0ENJE%20BUD%C5%BDETA%202019.pdf>

10 http://www.sepa.gov.rs/download/IJZ/INFORMATOR_2020.pdf

Office, local self-government bodies, and public enterprises, etc.). The Fiscal Council has concluded that the organizational fragmentation of environmental protection affairs is one of the reasons for the overall neglect of investment in this sector. Regardless of the division of responsibilities, and in order to ensure better coordination and more successful project implementation, the Fiscal Council has recommended that the Ministry of Environmental Protection, as the central and most competent institution in this sector, should create a list of all current and planned investment projects, supervise implementation and report on progress¹¹.

In January 2020, the Serbian Government stated that it had adopted a Negotiating Position for Chapter 27, following consultations with competent Committees of the National Assembly of the Republic of Serbia. Due to legal restrictions on access to information, CSOs, including Coalition 27, have not had the opportunity to read or analyse the section of the Negotiating Position pertaining to funding. The Ministry of Environmental Protection has stated that the Negotiating Position, among other things, "explains the financial framework for the activities in the coming period, so that Serbia can meet the EU standards in environmental protection".¹²

According to the Public Call for awarding funds for civil society projects in the field of environmental protection in 2019¹³, published on the 28th of March 2019, the Ministry of Environmental Protection co-funded 85 civil society project for the total amount of RSD 50 million, which marked significant progress compared to the previous three years, when total co-funding of projects was RSD 20 million.

11 Fiscal Council (2019): Strategic recommendations for the budget and the fiscal policy in 2020, available at: http://fiskalnissavet.rs/doc/eng/Summary-Strategic_recommendations_for_the_budget_and_fiscal_policy_in_2020.pdf

12 <https://www.ekologija.gov.rs/pregovaracka-pozicija-za-poglavlje-27-zivotna-sredina-i-klimatske-promenestize-evropskoj-komisiji-u-brisel/>

13 https://www.ekologija.gov.rs/wp-content/uploads/konkursi/Javni_konkurs_2019.pdf

Strategic and legislative framework

In 2019, there were no activities concerning the development of the legislative framework for environmental protection and climate change funding. In December 2019, the Serbian Government adopted the Regulation on the Criteria for Determining the Environmental Impact Activities According to the Level of the Negative Environmental Impact through the Performance of Activities, Amounts of Fees, and Conditions for its Reduction, as well as the Criteria of Significance for the Environmental Impact of Natural Persons¹⁴ (pursuant to Article 134, paragraph 2, of the Law on Fees for the Use of Public Goods¹⁵ and Article 42, paragraph 1, of the Law on Government¹⁶).

The regulation initially stipulated that natural persons were also required to pay environmental protection fees. However, only days after the Regulation was adopted, the Serbian Prime Minister¹⁷ announced amendments to the Regulation that abolished environmental protection fees for natural persons.

The Green Fund's inoperability has been the subject of previous reports by Coalition 27.¹⁸ From the moment the Green Fund was established in 2016, until today, minimal progress has been made. The abolition of the purpose-specific allocation of funds raised from the environmental protection fees is the result of the Budget System Law of the Republic of Serbia of 2015. The Law on Fees for the Use of Public Goods, which includes environmental protection fees, was passed in December 2018. This Law confirmed the abolition of the purpose-specific allocation of these funds and enabled the use of funds raised from

14 "Official Gazette of the Republic of Serbia", Nos. 86/2019 and 89/2019.

15 "Official Gazette of the Republic of Serbia", Nos. 95/18 and 49/19.

16 "Official Gazette of the Republic of Serbia", Nos. 55/05, 71/05 – corrigendum, 101/07, 65/08, 16/11, 68/12 – CC, 72/12, 7/14 – CC, 44/14 and 30/18 – other law.

17 <https://www.kamatnica.com/vest/vlada-promenila-odluku-gradjani-ipak-nece-placati-eko-taksu/60431#>

18 <https://www.koalicija27.org/en/publications/>

environmental protection fees for other purposes, rendering this economic instrument, based on the “polluter pays” principle, pointless.

The Budget Law of the Republic of Serbia allocated RSD 7.9 billion for the Ministry of Environmental Protection for 2020, almost RSD two billion more than for 2019. Nonetheless, these funds are not nearly sufficient to govern environmental protection in accordance with EU standards; the Fiscal Council has estimated the need for annual investment of €500 million in this sector for the next 10 to 15 years.¹⁹ The 2020 Budget lacks capital investments into communal infrastructure and environmental protection, which, according to Fiscal Council’s estimation, should have been increased by about RSD 15 billion in 2020, and for which there was space within the budget to do so.²⁰

19 Fiscal Council (2018): Investments in Environmental Protection: A Social and Fiscal Priority, available at: <http://www.fiskalnisavet.rs/doc/eng/FC%20-%20Investments%20in%20environmental%20protection.pdf>

20 Fiscal Council (2019): Assessment of the Draft Budget for 2020 and Revised Fiscal Strategy for 2020-2022, available at: http://fiskalnisavet.rs/doc/eng/FC_Summary_Budget_2020_and_Revised_Fiscal_Strategy.pdf

Recommendations

- 1.** Adopt bylaws to strengthen the operation of the Green Fund.
- 2.** Amend the Budget System Law and the Law on Fees for the Use of Public Goods in order to reinstitute the purpose-specific allocation of funds raised from environmental protection fees.
- 3.** Significantly increase the annual allocation from the budget of the Republic of Serbia for environmental protection, in accordance with the Fiscal Council's recommendations.
- 4.** Increase the number, and systematize the roles, of employees in the sector of environmental protection pursuant to the Law and needs.
- 5.** Establish a measurable and comprehensive monitoring and reporting system for investments (from the national budget, IPA fund, and bilateral donations) in environmental protection and climate change.
- 6.** Increase the capacity of the Ministry of Environmental Protection to assess the needs and objectives of their work, short-term and long-term planning of activities, absorption of pre-accession funds and adequate implementation of projects.
- 7.** Grant greater authority to the Ministry of Environmental Protection over projects within the scope of activity of the Ministry and grant the Ministry a coordinating role for investment projects implemented by other bodies that fall within the scope of the Ministry.

Recommendations made by **CSO Stanište Ecological Centre**, which are supported by Coalition 27:

- 8.** Provide fundamental public participation in decision-making at a local level in setting priorities and allocating green funds through amendments to the Law on Environmental Protection, and allocate revenue from environmental protection fees to the Autonomous Province of Vojvodina, through amendments to the Law on Waste Management.
- 9.** Establish and implement financial discipline measures against municipalities and towns that violate the law pertaining to funding in any way.
- 10.** Introduce a template for programming and reporting on environmental funds by the local self-governments, and make these documents publicly available on the website of the Ministry of Environmental Protection or the Environmental Protection Agency.



FINANCING IN THE FIELD OF THE ENVIRONMENT AND CLIMATE CHANGE IN SERBIA

Poor structure and coordination of institutions

- complicated procedures
- insufficient number of competent personnel
- inefficient division of responsibilities

Problematic planning and programming of the budget

- poor implementation of planned projects
- Failure to harmonize plans and programmes
- decision-making without public participation

WHY IT'S
NOT
FUNCTIONING?

Non-transparent institutions

- planning and execution of the budget without public participation
- limited access to information on the financing of projects and activities

Poor legal basis

- funds raised from environmental protection fees are not specifically allocated for environmental protection activities
- inadequate regulatory basis of the Green Fund
- the adoption of laws and bylaws is delayed