

# FINANCING IN THE FIELD OF ENVIRONMENT AND CLIMATE CHANGE

## OVERVIEW

Funding in the field of environmental protection and climate change has been identified as one of the key issues in the environmental management system as set out in several strategic documents of the Republic of Serbia, and the need to improve the funding system is recognized by all relevant participants in society, including government institutions and civil society organizations.

Since the Ministry of Environmental Protection was established, one of the priority topics, along with EU integration and Chapter 27, is most certainly funding. However, only slight progress was made in this area over the course of 2018.

Pursuant to the Law on the Budget of the Republic of Serbia for 2018<sup>1</sup>, the Ministry of Environmental Protection received funds in the total amount of RSD 5,858,551.000, of which, RSD 2,995,000.000 was allocated to the Green Fund, whilst the amount of RSD 2,863,551.000 was assigned to the Ministry. Following subsequent budget reallocations, the total amount of funds for the work of the Ministry of Environmental Protection increased by RSD 5,991,865.067 – RSD 2,688,400,000 was allocated to the Green Fund and RSD 3,303,465.067 to other budget lines of the Ministry.

Bearing in mind the state of the environment, as well as the planned goals regarding European integration and the announced opening of Chapter 27, the presented data are quite worrying and alarming, and thus points to the fact that the environment (still) does not represent a priority to the Government of the Republic of Serbia. Additionally the funding system in the field of environmental protection and climate change is far from functional. The key problems that cause the failure of this funding system are: an inoperative Green Fund, abolishment of specific-purpose funds collected based on environmental protection fees and insufficient allocation of funds from the budget of the Republic of Serbia.

According to the data on budget allocations published in the Ministry of Environmental Protection Information Booklet<sup>2</sup>, RSD 2,411,308.914 was spent by the Green Fund **budget**, which is about 89.69% of the money allocated by the Ministry's budget to the Green Fund, out-of which 81.32% was spent as an incentive to the recycling industry. **The Ministry of Environmental Protection** has spent RSD 1,738,118.295, i.e. 52.62% of the planned budget for this year. Given the fact that the realization of total allocated funds is significantly lower compared to the one originally planned by the 2018 Budget Law, it remains unclear as to why certain reallocations were made, and especially why the overall budget of the Ministry was increased.

The presented data indicates an apparent lack of capacity relative to long-term planning and implementation of policies and projects, as well as absorption of avail-

1 "Official Gazette of the Republic of Serbia", No.113/17

2 [http://www.ekologija.gov.rs/wp-content/uploads/informator/IZVR%C5%A0ENJE\\_BUD%C5%BDETA.pdf](http://www.ekologija.gov.rs/wp-content/uploads/informator/IZVR%C5%A0ENJE_BUD%C5%BDETA.pdf)

able funds since the Ministry did not use this budget which has been, according to many estimates, insufficiently spent both on necessary measures and environmental conservation projects.

In the area of **financing activities (projects) of civil society organizations** in 2018, significant progress was made in the process of planning and diversifying thematic areas for the co-financing of projects. Furthermore, significant progress was also made in the allocation of funds by the Ministry of Environmental Protection to the civil society. According to the Law on the Budget of the Republic of Serbia for 2018, RSD 35 million was allocated to provide support to civil society projects in the field of environmental protection, whereas in 2019 this amount was increased by RSD 50 million. These funds are allocated from the principal budget for the Green Fund. However, based on the list of awarded grants, the impression is that the funds continue to be allocated in a way that more organizations receive small amounts of support; which can be deemed as the least effective method of resource disbursement. In addition, the procedure relative to the call for bids and allocation of funds is extremely long, for which reason the project implementation timeframe is limited to a few months. In the event of nature conservation projects, such dynamics significantly complicate implementation, and often disable the projects' realization.

In June 2018, the independent government body called the Fiscal Council published a document "*Investments in Environmental Protection: Social and Fiscal Priority*"<sup>3</sup>. In this document, the Fiscal Council **estimates that a strong increase in investment in environmental protection is a budgetary priority in 2019 and subsequent years.** The estimated annual increase in the budget allocation for environmental protection totals around 1.2-1.4% of GDP (around 500 million euros). According to the Fiscal Council's assessment, with the increase in budgetary allocations, the reform of local public finances and local public enterprises is also needed. The public companies of the Republic of Serbia, especially EPS (Electric Power Industry of Serbia) should also strongly increase their environmental investment – for which reason their reform is necessary. Despite the recommendations of the Fiscal Council to allocate RSD 14.4 billion to the protection of the environment in 2019, the budget for 2019 predicts a much lower total – a little over one billion dinars (RSD 1.3 billion).<sup>4</sup>

Lack of capacity for long-term planning and implementation of policies and projects is also directly related to the lack of employees in the environmental protection sector, whether in administrative, inspection, engineering or economic-planning work places. Despite the new systematization of jobs created after the formation of the Ministry of Environmental Protection in 2017, which envisaged an increase in the number of employees, this was not realized in 2018.

The theme of financing environmental protection and climate change became a current media and daily political theme after the promotion of the Shadow Report of the Coalition 27 in May 2018 and the publication of the Fiscal Council document in June 2018. Unfortunately, the attention paid to this problem, as well as all analyses and

3 <http://www.fiskalniasavet.rs/doc/eng/FC%20-%20Investments%20in%20environmental%20protection.pdf>

4 Source: Fiscal Council, Evaluation of the Draft Budget Law 2019; [http://www.fiskalniasavet.rs/doc/eng/Summary\\_%20Assesment-of-the-Budget-Proposal-for2019.pdf](http://www.fiskalniasavet.rs/doc/eng/Summary_%20Assesment-of-the-Budget-Proposal-for2019.pdf)

recommendations did not have a major impact on the decisions of the Government of Serbia and on the improvement of the operation of the Ministry of Environmental Protection. A large number of decisions related to financing in the fields of environmental protection and climate change are made in an insufficiently transparent way.

## LEGISLATIVE FRAMEWORK

The Green Fund's inoperability has been the subject of our previous Reports<sup>5</sup> and, since the moment of its establishment in 2016, minimal progress has been made.

The abolition of the dedicated character of the funds collected from environmental protection fees is the result of the Law on the Budget System of the Republic of Serbia from 2015. The Law on Fees for the Use of Public Goods, which includes environmental protection fees, was passed in December 2018<sup>6</sup>. The said Law confirmed abolition of the dedicated character of the funds and enabled the use of money from environmental protection fees for purposes other than environmental protection. As a result, this economic instrument is rendered senseless due to the fact that it is based on the "polluter pays" principle.

Amendments to the Law on Environmental Protection<sup>7</sup> in October 2018 did not make significant progress in the field of financing. The Green Fund remains inoperative due to missing subordinate legislations, but the description of the activities financed by the Green fund has been changed. Activities in agriculture that can potentially have a negative impact on the environment are being included and the obligations of IPARD users to meet the appropriate environmental conditions have been introduced. Considering that in the explanation of the Law it is stated that its implementation will not require additional financial resources, the question is how the implementation of the prescribed conditions for users of IPARD funds will be monitored when the insufficient capacities of the inspection will not be addressed. Moreover, amendments were made regarding the co-financing of IPA projects from the Green Fund:

*21) preparation and co-financing of projects financed by EU pre-accession assistance in accordance with Article 89, paragraph 3 and 4 of this Law, as well as unforeseen expenses related to the realization of these projects;*

*21a) co-financing of projects financed by international development assistance and other financial resources that require co-financing;*

*The funds of the European Union referred to in paragraph 2 of this Article shall be used for financing projects in accordance with the accredited European Union funds management system.*

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5 Coalition 27 (2017): Chapter 27 in Serbia: Still Under Construction; Coalition 27 (2018): Chapter 27 in Serbia: No - progress Report

6 "Official Gazette of the Republic of Serbia", No. 95/2018

7 "Official Gazette of the Republic of Serbia", No. 135/2004, 36/2009, 36/2009 – state law, 72/2009 – state law, 43/2011 - decision US, 14/2016, 76/2018 and 95/2018 – state law

*Financing of infrastructure projects is done on the basis of a unique list of priority projects, in accordance with the methodology for selection and prioritization of infrastructure projects.*

This practically means that the funds used for co-financing these projects will be allocated from the Green Fund without public calls and in an insufficiently transparent manner.

## **RECOMMENDATIONS**

- Adopt bylaws that will increase the operation of the Green Fund.
- Enable the return of the dedicated character of funds collected from environmental protection fees by amending the Law on the Budget System and the Law on Fees for the Use of Public Goods.
- Increase allocation from the budget of the Republic of Serbia to environmental protection sector.
- Increase the number of employees in the field of environmental protection in accordance with the appropriate Law (systematisation) and needs.
- Envisage a measurable and comprehensive monitoring and reporting system on investment funds (from the budget, funds, IPA, bilateral donations) in the field of environmental protection and climate change.
- Increase the capacity of the Ministry of Environmental Protection relative to assessment of needs and work goals, short-term and long-term planning of activities, absorption of funds from pre-accession funds and adequate implementation of projects.

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\* Source the Fiscal Council

The estimated annual increase in the budget allocation for environmental protection is about

**oko 1,2-1,4% of GDP**

(about RSD 59,500,000,000/500million Euros).



Law on the Budget of the Republic of Serbia for 2018 - the Ministry of Environmental Protection received funds in the total amount of RSD 5,991,865.067.

RSD 2,688,400.000 was allocated to the Green Fund - RSD 3,303,465.067 to other budget lines of the Ministry.

Ministry of Environmental Protection Information Booklet for 2018 - budget execution data - the Ministry spent

**52,62% of the planned budget**



Of the money allocated by the Ministry's budget to the Green Fund 89.69% was spent, out of which 81.32% was used as an incentive to the recycling industry.