Financing in the Field of Environmental Protection and Climate Change

Introduction

Establishing sustainable financing in the fields of environmental protection and climate change is one of the most important issues and most urgent reform tasks within the entire environmental protection system in the Republic of Serbia. Chapter 27 – Environment and Climate Change is considered one of the most technically complex and financially most demanding chapters in the EU integration process, as it involves not only the transposition of extensive European legislation but also its full implementation. This includes areas such as water and waste management, climate change, industrial pollution and others, all of which require substantial financial resources. All key strategic documents of the Republic of Serbia recognize this need, emphasizing that significantly greater investments from all stakeholders – the state, the economy and citizens – are necessary to resolve the accumulated environmental issues. For illustrative purposes, according to the draft Environmental Protection Strategy – Green Agenda for the Republic of Serbia,[1] which is expected to be adopted, the estimated required funding for the 2024–2033 period exceeds EUR 27 billion.[2] Unless adequate, stable and long-term financing mechanisms are secured, not only will the achievement of strategic goals and fulfillment of international obligations (primarily toward the EU) be jeopardized, but also the protection of citizens' health and the ability to harness the economic potential of the green transition.

Despite the fact that more than ten years have passed since the start of EU accession negotiations, Serbia still does not fundamentally apply the basic financial principle of modern European environmental law – the polluter pays principle. This principle requires the establishment of a system in which the costs of preventing and remedying pollution are borne by those who cause it.

1 https://www.ekologija.gov.rs/informacije-od-javnog-znacaja/javne-rasprave/javni-poziv-za-ucesce-javnosti-u-procesu-konsultacija-u-vezi-sa-izradom-strategije-zastite-zivotne-sredine-zelena-agenda-republike-srbije-za-period-2024-2033-godine

2 The approximate costs for achieving the objectives of the Strategy are expressed at 2024 constant prices, which means that the expected inflation over the period until 2033 has not been taken into account.

In practice, this necessitates a robust legal and institutional framework capable of generating, collecting and purposefully directing significant financial resources toward environmental protection. Underdeveloped mechanisms for the collection and expenditure of funds, accompanied by a lack of political will, as evidenced by insufficient allocations from the state budget, have resulted in extremely low investments in environmental protection over the past decade. More precisely, an analysis presented in the previous report by Coalition 27[3] showed that Serbia, during the period from 2014 to 2023, allocated only about one-third of the amount that, according to the National Environmental Approximation Strategy,[4] it was supposed to invest in order to be on track to meet the then-current requirements of Chapter 27 by 2030. Although there are several reasons that contributed to such low investments in environmental protection during the analyzed period, an inadequate financing system was likely one of the main bottlenecks hindering the resolution of all other issues in this sector.

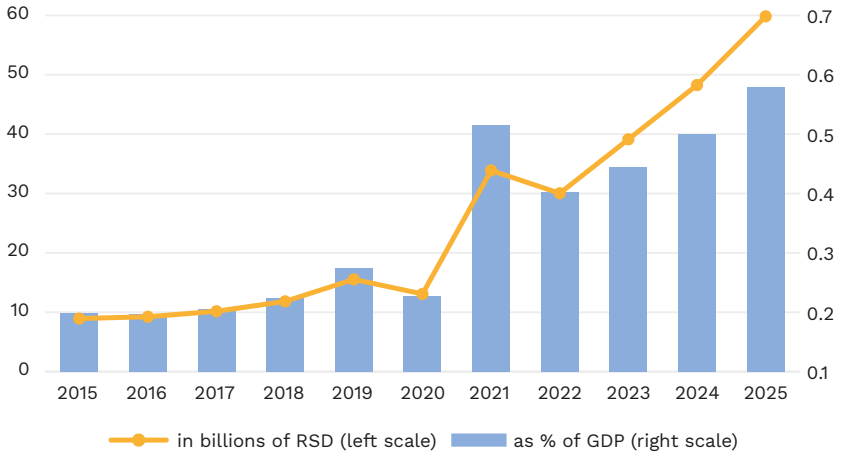
However, in the past few years, an encouraging trend has emerged. The most significant positive change since 2021 has been the noticeable increase in financial resources allocated by the state for environmental protection. This trend continued in 2024 and, according to the Government's plans, is expected to do so in 2025 as well (Figure 1). This development aligns with the repeatedly stated recommendations of the European Commission, civil society and independent bodies such as the Fiscal Council, and offers hope that Serbia may, in the foreseeable future, approach the desirable level of budget expenditures in this area. However, this progress is overshadowed by the fact that the increase is not the result of fiscal and institutional reform, but is largely based on external sources of financing: EU pre-accession funds, bilateral donations, loans from international financial institutions and increasingly, intergovernmental loan arrangements. Such heavy reliance on external funding raises concerns about the long-term sustainability of Serbia's environmental policies and systemic investments in environmental protection and climate change. These concerns are deepened by the simultaneous lack of attention to structural reforms, which

3 https://www.koalicija27.org/wp-content/uploads/2024/11/Izvestaj-iz-senke-2024.pdf

4 https://pravno-informacioni-sistem.rs/eli/rep/sgrs/vlada/strategija/2011/80/1/reg

are a prerequisite for developing a domestic financing system – an issue the European Commission has been insisting upon year after year. Specifically, these include the establishment of an operational and adequately resourced Green Fund, consistent earmarked spending of revenues collected through environmental taxes and fees, strengthening institutional capacities and ensuring transparent management of public infrastructure projects.

Figure 1: Environmental protection expenditures from the national budget, 2015–2025 (in billions of RSD and as % of GDP)



Source: Calculation based on data from the final budget account of the Republic of Serbia and the 2025 Budget Law of the Republic of Serbia

Note: The data for 2025 represent the planned environmental protection expenditures as stated in the 2025 Budget Law of the Republic of Serbia, while the data for the previous years reflect their final execution.

Overview of Financing in the Field of Environmental Protection and Climate Change in 2024 and 2025

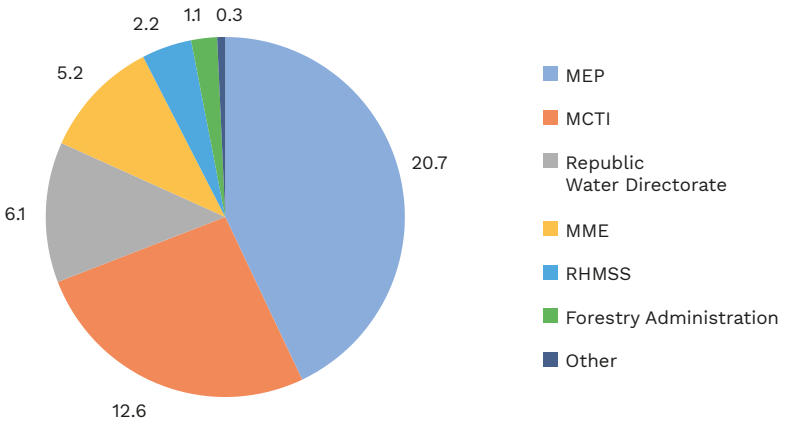
According to the data on execution of the budget of the Republic of Serbia, total expenditures for environmental protection and climate change in 2024 amounted to nearly RSD 48.3 billion, which is approximately 0.5% of the Gross Domestic Product (GDP). As shown in Figure 1, last year saw a historical peak in the absolute amount, while in relation to GDP, this was the second-highest level of environmental protection spending since these figures have been tracked (second only to 2021). What is particularly noteworthy is that, for the first time, budget execution actually exceeded the planned values – specifically, the actual expenditures were about RSD 2 billion (4.4%) higher than the amount projected in the revised budget from September 2024.[5] This marks a fundamental shift compared to the poor practices seen during much of the second decade of the 21st century, when the competent institutions often failed to utilize their (already modest) budgets. Compared to 2023, environmental protection expenditures recorded a substantive increase of RSD 9.1 billion, or about 23%. However, despite this encouraging growth, it's important to place these figures in a broader context: environmental protection spending still accounts for a relatively modest 2% of the total national budget expenditures.

When environmental protection expenditures are analyzed per budget beneficiaries, the spending structure in 2024 shows a clear concentration of responsibilities within a few key institutions (Figure 2). As expected, the largest portion of funds was executed by the Ministry of Environmental Protection (MEP), which, including the budgets of the Environmental Protection Agency and other relevant institutions, accounted for RSD 20.7 billion, or 43% of all

5 http://www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/14_saziv/2183-24%20rebalans%20spojeno%20za%20sajt.pdf

expenditures in this sector. It is important to note that the Ministry's budget increased by approximately RSD 7.5 billion compared to 2023, which was the main driver of the overall growth in environmental protection expenditure in 2024. Following the Ministry of Environmental Protection in terms of expenditure is the Ministry of Construction, Transport and Infrastructure (MCTI), with RSD 12.6 billion executed (26.2%). The high share of this ministry is due to the fact that it funds the single largest infrastructure project in the field of environmental protection – Clean Serbia. Significant funding was also directed through the Republic Water Directorate (RSD 6.1 billion or 12.6%), primarily for water management, as well as the Ministry of Mining and Energy (RSD 5.2 billion or 10.7%), whose funds were mainly allocated to energy efficiency projects and renewable energy sources. All other budget beneficiaries combined spent the remaining RSD 3.6 billion on various activities related to environmental protection and climate change.

Figure 2: Structure of environmental protection and climate change expenditures per budget beneficiaries in 2024 (in billions of RSD)



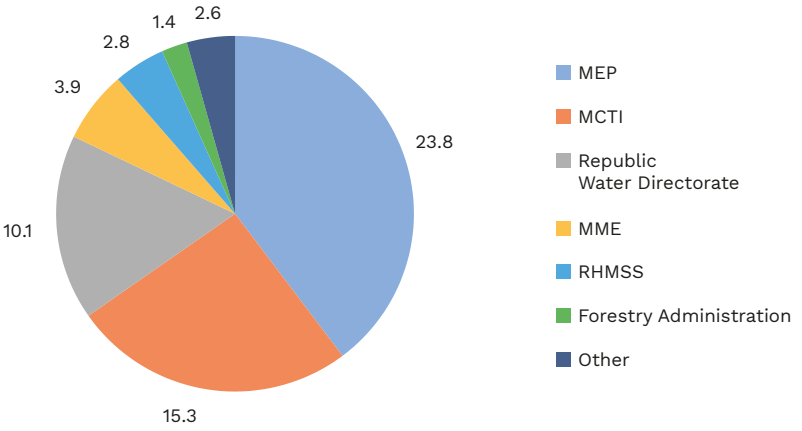
Source: Calculation based on the 2024 national budget execution data

The 2025 Budget Law of the Republic of Serbia[6] announces the continuation of a positive trend, signaling a further increase in investments in environmental protection and climate change. Specifically, total expenditures in this sector are planned at nearly RSD 60 billion, which, according to current projections, should account for almost 0.6% of the estimated GDP for the current year. If the execution follows the plan, this would be a new record level of annual investments in environmental protection from the national budget, making up 2.2% of all national expenditures. Compared to the 2024 execution, the Government has planned an increase of RSD 11.5 billion, or about 24%. This would make 2025 the second consecutive year in which national budget spending on environmental protection has increased by nearly a quarter, confirming the previously mentioned shift in the scale of public funds allocated for this purpose.

The planned increase in environmental protection and climate change expenditures in 2025 is distributed across almost all key budget beneficiaries, and their structure is shown in Figure 3. The Ministry of Environmental Protection (MEP) has been allocated a budget of RSD 23.8 billion, which is approximately RSD 3 billion more than the previous year, accounting for nearly 40% of the total sector budget. It is followed by the Ministry of Construction, Transport and Infrastructure (MCTI), with a planned RSD 15.3 billion (an increase of RSD 2.7 billion), thus maintaining its share of over one-quarter of total allocations. The largest absolute increase is planned for the Republic Water Directorate, whose budget is expected to rise by RSD 4 billion, reaching RSD 10.1 billion and accounting for around 17% of the total environmental protection budget. Among other beneficiaries, the Ministry for Public Investment stands out in particular, with a significant planned increase from RSD 320 million executed in 2024 to almost RSD 2.5 billion in the current year. Given the weak execution of this ministry's budget in the previous year, it remains uncertain whether the barriers to more efficient project implementation have been addressed, which is a prerequisite for fulfilling the much more ambitious 2025 budget plan. On the other hand, the only budget beneficiary for which a decrease in spending is planned is the Ministry of Mining and Energy, with a reduction of RSD 1.3 billion.

6 https://mfin.gov.rs/propisi/zakon-o-budzetu-republike-srbije-za-2025-godinu-slubeni-glasnik-rs-br-942024

Figure 3: Structure of environmental protection and climate change expenditures per budget beneficiaries, 2025 (in billions of RSD)



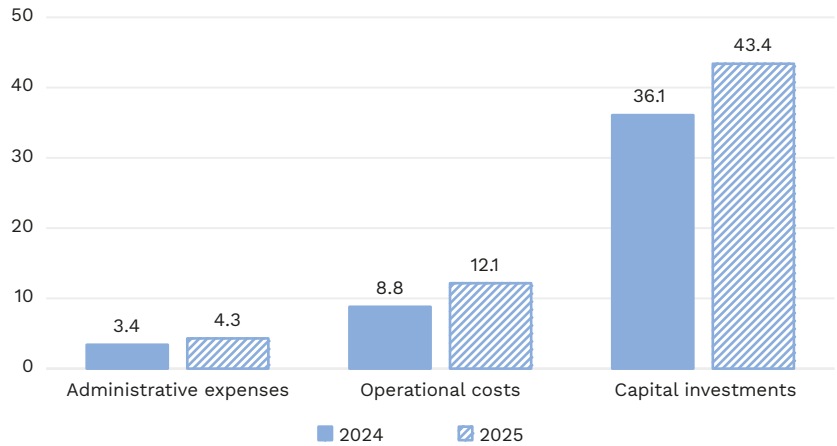
Source: Calculation based on the 2025 national budget execution data

In addition to the overall increase in funding, the economic structure of these investments in 2024 is also encouraging, as the spending was predominantly investment-oriented (Figure 4). Specifically, nearly three-quarters of all expenditures (RSD 36.1 billion) were capital expenditures, i.e., investments in the construction of missing municipal infrastructure (wastewater treatment plants, sewer networks, waste management systems), procurement of monitoring equipment, afforestation, ecosystem restoration and more. This represents a significant increase in capital investments of about RSD 10 billion more compared to 2023. On the other hand, operational or current expenses (e.g., equipment maintenance, monitoring, subsidies) amounted to nearly RSD 9 billion (18.2%), while approximately RSD 3.4 billion (7%) were spent on administrative costs, such as salaries and employee benefits, inspection supervision services and international cooperation.

The 2025 budget foresees a similar structure of investments, with a noticeable increase across all three economic categories compared to their realization in 2024. Capital investments are planned to increase by RSD 7.3 billion (about 20%), operational costs by RSD 3.4 billion (a 38% rise), while administrative

expenses are expected to grow by around RSD 900 million (an increase of 27%). Thus, despite the differing growth rates across categories, the favorable budget structure dominated by infrastructure investments has been maintained in 2025, which is an important prerequisite for improving the state of the environment in Serbia.

Figure 4: Economic structure of investments in environmental protection, 2024 vs. 2025 (in billions of RSD)

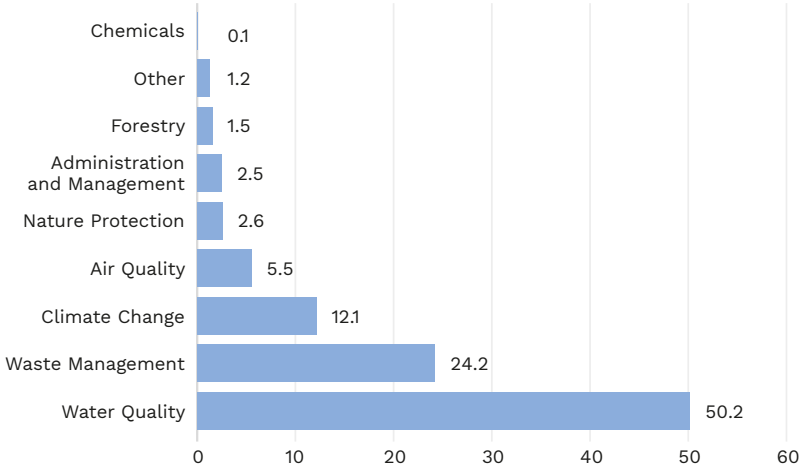


Source: Calculation based on the 2024 budget execution data and 2025 Budget Law of the Republic of Serbia

Sectoral Structure of Environmental Protection Expenditures in 2024 and 2025

An analysis of executed expenditures per sectors in 2024 shows that the majority of funds were directed toward two main areas, which together accounted for nearly three-quarters of the total environmental protection budget (Figure 5). The absolutely dominant sector was water protection and quality, which received RSD 24.2 billion, representing exactly 50% of all funds. In second place, with RSD 11.7 billion (24.2%), was the waste management sector. These two sectors, which generally require the largest infrastructure investments, naturally absorb the bulk of the available budgetary resources. Significantly behind them are investments in the climate change sector, which received RSD 5.9 billion (12.1%), and air pollution reduction, with RSD 2.7 billion (5.5%) allocated. Far smaller amounts were earmarked for nature protection (RSD 1.2 billion), administration and supervision (RSD 1.2 billion) and forestry (RSD 740 million). An almost symbolic amount of RSD 42 million (0.1%) was spent on chemical and biocidal product management, while the remaining approximately RSD 600 million (1.2%) covered related areas such as hunting, nuclear safety and seismic monitoring.

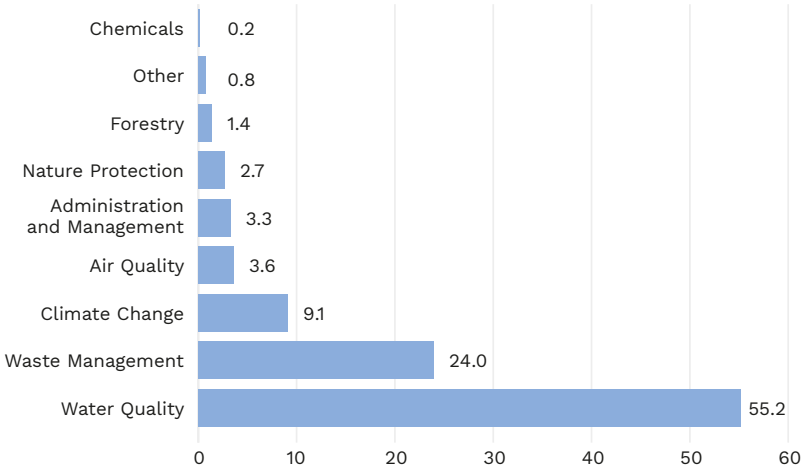
Figure 5: Structure of budget expenditures per sectors in 2024 (in %)



Source: Calculation based on the 2024 national budget execution data

The planned budget for 2025 indicates the continuation of the same sectoral priorities, resulting in a spending structure very similar to that of 2024 (Figure 6). The two most infrastructure-intensive areas – water and waste management – will continue to absorb nearly 80% of all environmental protection funds. The largest individual increase, of over RSD 9 billion, is planned precisely in the water quality and protection sector, bringing its budget up to RSD 33.4 billion, or as much as 56% of total environmental expenditures. Waste management has been allocated RSD 13.8 billion, accounting for around 23% of planned funds. Changes in other sectors are less pronounced and more varied. On the one hand, slightly lower investments are planned for climate change and air protection, which together with other activities are expected to receive cumulatively about RSD 1.1 billion less than in 2024. On the other hand, an increase of about RSD 1.3 billion in total is planned for the nature protection, administration, forestry and chemical and biocidal product management sectors. In summary, the total amount of funds allocated to the remaining environmental sectors will undergo only minimal changes, with a slight redistribution of funds across individual budget lines.

Figure 6: Structure of budget expenditures per sectors in 2025 (in %)



Source: Calculation based on data from the 2025 Budget Law of the Republic of Serbia

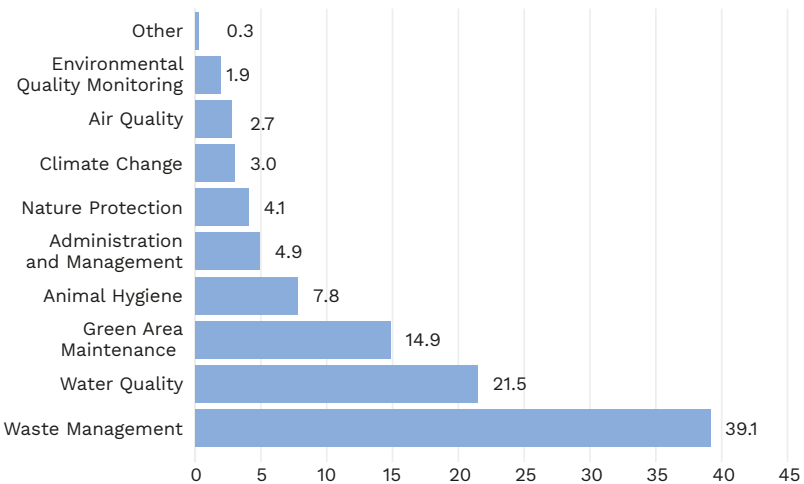
Since a significant portion of responsibilities in the environment and climate change sector is assigned to cities and municipalities, the key activities are also financed from local government budgets. According to budget execution data from 164 local self-government units (LSGs) in 2024, total expenditures classified under environmental protection amounted to RSD 30.6 billion.[7] However, it is important to note that it is methodologically incorrect to directly add this amount to the national government's expenditures in 2024 (RSD 48.3 billion), as a large part of the activities carried out by LSGs is funded through various transfers from the national budget, and such aggregation would result in double counting. Since publicly available data does not allow for a precise separation of expenditures financed from LSGs' own-source revenues, the analysis of local budgets in this report primarily serves to illustrate the structure of local-level investments. It also suggests that total public sector investments in environmental protection are likely somewhat higher than the

7 The analysis includes only those environmental protection programs and projects that were budgeted in accordance with the legally prescribed functional classification of expenditures, specifically, those with 500–560 codes. It is possible that there are additional local self-government expenditures potentially related to environmental protection, but they were not budgeted or recorded as part of this sector.

national expenditure figure, although the exact amount cannot be determined from the available data.

The structure of environmental protection expenditures at the local government level in 2024 clearly reflects their core municipal responsibilities (Figure 7). The largest portion of funds, RSD 11.9 billion, or 39.1% of total local spending in this area, was allocated to the waste management sector. This is followed by water protection and quality, which received RSD 6.5 billion (21.5%). Together, these two sectors account for over 60% of all expenditures, confirming that waste and wastewater management are the primary environmental responsibilities of cities and municipalities. A significant portion of the budget, RSD 6.9 billion in total, was also spent on two specific programs that fall exclusively under the jurisdiction of local self-governments: maintenance of public green areas and animal hygiene services. The remaining RSD 5.2 billion were distributed across a range of other activities, including administrative functions, nature protection, climate change adaptation measures, air quality protection and environmental quality monitoring.

Figure 7: Structure of local government expenditures per sectors in 2024 (in %)



Source: Calculation based on the 2024 LSG budget execution data

Water Quality and Protection

In 2024, a total of 24.2 billion dinars was disbursed from the national budget for the **water quality and protection** sector, which is an increase of around RSD 3 billion compared to the previous year. However, it is important to note that this figure also includes broader activities within the framework of integrated water management – over RSD 6 billion were allocated to projects under the jurisdiction of the Republic Water Directorate, though its direct contribution to water protection is rather symbolic, with less than RSD 15 million spent on such purposes in 2024. The main focus of investments in combating water pollution falls under the jurisdiction of other institutions, primarily the Ministry of Construction, Transport and Infrastructure (MCTI) and the Ministry of Environmental Protection (MEP).

The largest and most ambitious environmental undertaking in Serbia – the Clean Serbia program – is financed through the MCTI budget. This program, funded through a loan agreement with the Bank of China, involves the construction of wastewater treatment plants (WWTPs), sewer networks and pumping stations in 65 cities and municipalities across Serbia. According to budget execution data, approximately RSD 12 billion were disbursed for works under this project in 2024. On the other hand, the implementation of another major MCTI project, the construction of the Central Sewer System of the City of Belgrade, has faced renewed delays. Although there were signs of construction starting in 2023, data shows that in 2024, no funds were executed under this budget line, despite a revised budget allocating RSD 1 billion for the project.

In 2024, the Ministry of Environmental Protection spent approximately RSD 6.6 billion from its budget for this purpose. The most important projects under the Ministry's jurisdiction include those partially financed through EU pre-accession funds (IPA 2017, 2018 and 2020),[8] for which over RSD 2 billion were disbursed, as well as the wastewater management project in Leskovac,

8 Funds from IPA 2017 are being used to finance the construction of a WWTP in Kraljevo, including the expansion of the sewer network and the construction of a storm-water drainage system to direct wastewater from suburban settlements on the right bank of the Ibar River to the treatment facility. The IPA 2018 project involves the construction of a WWTP in Niš at the Ciganski Ključ site, a small water treatment facility at the Medijana water plant, the construction of six collectors and the development of parts of the sewer network in four villages in the vicinity of Niš.

which received nearly RSD 1.9 billion. Additionally, significant funds (RSD 4.6 billion) were allocated to a project with the generic title Improvement of Environmental Protection Infrastructure. It should be noted, however, that this project includes not only measures for water protection, but also investments in soil protection and waste management.

At the local government level, total expenditures in the water management sector amounted to approximately RSD 6.5 billion in 2024, although, as previously mentioned, this figure also includes funds received from the national budget. An analysis of the economic structure of these expenditures shows that approximately RSD 3.6 billion were allocated to capital investments, while the remaining nearly RSD 3 billion were spent on current expenditures, including subsidies for the regular operations of public utility companies. A more detailed review of capital spending reveals that funds were primarily invested in the construction and rehabilitation of sewer networks for both municipal and storm-water systems, the construction of wastewater treatment plants (WWTPs), as well as the development of necessary project documentation for future infrastructure projects. Looking at individual municipalities and cities, the largest investments in 2024 were recorded in the municipality of Mali Iđoš (nearly RSD 800 million for sewer network construction in the villages of Feketić and Lovćenac), the City of Belgrade (approximately RSD 790 million for several smaller projects) and the municipality of Irig (RSD 565 million for the construction of a WWTP in Vrdnik).

In the 2025 budget, the Government plans to continue implementing most of the ongoing water-related projects, with a significant increase in total funds by nearly RSD 9 billion (approximately 35%), bringing the planned expenditures to almost RSD 33 billion. The largest nominal increase is allocated to the budget of the Republic Water Directorate, with around RSD 4 billion more, pushing this agency's budget beyond RSD 10 billion for the current year. The MCTI has been allocated RSD 10 billion to continue the Clean Serbia program, which is about RSD 2 billion dinars less than the amount spent in 2024. At the same time, substantial funds of up to RSD 5 billion are earmarked for the construction of the Central Sewer System of the City of Belgrade. However, this plan should be approached with caution – although RSD 3 billion were initially planned for

this project in 2024, the revised budget reduced the amount to RSD 1 billion, and the actual expenditure was zero. Given this, it is uncertain whether this year's ambitious plan will actually be implemented. Finally, nearly RSD 7 billion are budgeted for the Ministry of Environmental Protection, mainly to continue the same projects as in the previous year, with the notable addition of renewed budget allocation for the construction of a WWTP in Zubin Potok.

Waste Management

In the **waste management** sector, national-level budget expenditures in 2024 amounted to RSD 11.7 billion, marking a noticeable increase of RSD 2.3 billion compared to 2023. The Ministry of Environmental Protection (MEP) is primarily responsible for execution of these expenditures. The single largest expense in this sector continues to be the incentives for the recycling industry, which totaled nearly RSD 3.9 billion in 2024, slightly less than the previous year. However, a positive trend of growing investment aimed directly at improving the waste management system and conditions on the ground has been observed in recent years. In 2024, RSD 1.6 billion were spent on the construction of regional waste management centers, RSD 1.4 billion on the remediation and closure of non-sanitary landfills, RSD 560 million on equipment for collection and recycling and nearly RSD 200 million on the prevention and removal of illegally dumped waste.

At the local government level, waste management expenditures in 2024 amounted to RSD 11.9 billion, a portion of which was financed through transfers from the national budget. An analysis of the structure of these expenditures reveals that the majority was spent on payments to local utility companies for public area cleaning services and waste management. A significantly smaller share was allocated to capital investments in physical infrastructure, around RSD 2.5 billion, and subsidies to public and private companies in this sector, which totaled about RSD 1 billion. Investment projects financed by cities and municipalities over the past year included the construction of regional waste management and recycling centers, procurement of specialized vehicles, preparation of project and technical documentation and projects for the remediation and reclamation of municipal landfills. Looking at individual local governments,

the highest expenditures on waste management were, as expected, recorded in the largest cities: the City of Belgrade (around RSD 1.5 billion) and the City of Novi Sad (around RSD 1 billion), followed by the City of Niš (around RSD 610 million), Bor (around RSD 590 million), Kruševac (around RSD 560 million), Smederevo (around RSD 370 million) and others.

The 2025 budget continues the trend of increasing investment in waste management, with planned expenditures amounting to around RSD 14.3 billion, which is RSD 2.5 billion more than the amount executed in 2024. As in the previous years, the largest portion of these funds is budgeted under the Ministry of Environmental Protection. An analysis of the plan suggests a continued and gradual policy shift from subsidies toward direct investments. The planned amount for subsidies to the recycling industry has been further reduced by RSD 400 million, now totaling RSD 3.5 billion. In contrast, funding for projects aimed at developing waste management systems has seen a significant increase (from less than RSD 50 million to RSD 700 million), as well as for the construction of regional centers (from RSD 1.6 to nearly RSD 2.2 billion). In addition, the 2025 plan includes new projects financed by EU funds. The most significant is the establishment of an integrated regional waste management system in Novi Sad and six surrounding municipalities (IPA 2021), with a budget of RSD 1.7 billion. A new initiative also includes the procurement of mobile construction waste crushers (IPA 2024). The Government has also planned to continue the implementation of previously launched projects and programs, allocating amounts similar to those in 2024.

Climate Change

In 2024, national budget expenditures in the field of **climate change** amounted to nearly RSD 5.9 billion, which is almost twice as much as in 2023. Funding for climate-related policies was provided through three budget lines, with the largest contribution coming from the energy sector. The Ministry of Mining and Energy (MME) disbursed over RSD 2.4 billion for various projects in the fields of energy efficiency and renewable energy.[9] In addition, RSD 980 million in incentives for

9 The majority of funds were spent within two projects: Energy Efficiency in Central Government Buildings (nearly RSD 1.2 billion) and the Clean Energy and Energy Efficiency Project for Citizens (RSD 815 million).

improving energy efficiency were distributed through the Administration for Financing and Promoting Energy Efficiency. The second-largest spender was the Republic Hydrometeorological Service (RHMSS), which used nearly RSD 2.2 billion for its regular activities and specific climate-related projects. Several smaller projects were financed under the Ministry of Environmental Protection (MEP), including Reducing the Carbon Footprint of Local Communities through Circular Economy Principles (around RSD 95 million), Green Transformation of Cities – Smart, Sustainable and Low-Carbon Urban Solutions (also around RSD 95 million) and activities related to the preparation of the Report of the Republic of Serbia under the UN Framework Convention on Climate Change, for which RSD 4.5 million were spent.

At the local government level, budget expenditures related to climate change in 2024 were relatively modest, amounting to around RSD 920 million.[10] Most activities carried out by cities and municipalities focused on improving energy management, enhancing energy efficiency in public buildings and co-financing the energy transition of households. In addition, a number of smaller, targeted projects were implemented, such as supporting energy cooperatives in Medveđa, mapping the urban heat island in Belgrade, climate change adaptation through the redesign of schoolyards in Belgrade, and the Solar Schools project in Valjevo. Among individual local governments, the City of Belgrade had by far the highest expenditures in this area (around RSD 645 million), followed by Kragujevac (around RSD 70 million), Novi Pazar (around RSD 58 million), Svilajnac (around RSD 44 million) and Valjevo (around RSD 26 million).

In the 2025 budget, the Government allocated approximately RSD 5.4 billion for climate change, which is approximately 7% less compared to the 2024 level. The plan for the current year mainly involves the continuation of existing policies, including the institutionally significant project Improving Public Financial Management for the Green Transition Operation in Serbia, for which nearly RSD 99 million have been allocated under the Ministry of Finance. The

10 The estimated amount includes only those program activities and projects at the local government level that are explicitly related to climate change, energy efficiency and renewable energy sources. However, an analysis of national budget expenditures intended to co-finance local projects in these areas in 2024 suggests that the total investments by cities and municipalities may have been somewhat higher, but these costs were likely recorded under other sectors or programs.

Ministry of Environmental Protection has been allocated RSD 177 million for both ongoing and new projects, such as strengthening reporting capacities under the Paris Agreement. The Ministry of Mining and Energy plans expenditures of around RSD 1.6 billion (roughly RSD 800 million less than in the previous year). Among its programs, a new project stands out: the construction of self-balanced solar power plants (1 GW) with battery storage systems, for which RSD 420 million are earmarked. Finally, a notable increase can be seen in the budget of the Republic Hydrometeorological Service (RHMSS), with funding for regular activities rising from RSD 2.2 billion in 2024 to a planned RSD 2.8 billion in the current year.

Air Quality

Expenditures for reducing pollution and improving **air quality** from the national budget in 2024 amounted to nearly RSD 2.7 billion, which is about RSD 700 million, or nearly one-third more than in 2023. The funding for these projects was provided mainly from the budget section of the Ministry of Environmental Protection (MEP), with significant contributions from the Ministry of Mining and Energy (MME).

In 2024, the MEP continued implementing programs aimed at energy efficiency and reducing air pollution from individual sources. A total of RSD 129.9 million was allocated for co-financing the replacement of individual heating systems (a 30% increase), while nearly twice as much as in 2023 (RSD 684.8 million) was spent on refurbishing boiler rooms in public buildings. However, the implementation of the district heating improvement project in Kragujevac fell significantly short, with only RSD 6 million spent, which is less than 10% of the planned amount. Subsidies for the purchase of environmentally friendly vehicles also continued, but with significantly reduced funding of RSD 205 million, which is more than half less compared to 2023. The main project in the field of air quality and also the single largest expenditure in this sector, is under the jurisdiction of the MME. This is the project Rehabilitation of the District Heating System in Serbia (Phase V), for which just over RSD 1.6 billion was allocated from the budget in 2024. The project is financed through a loan (EUR 30 million) and a grant (EUR 2 million) from the German development

bank KfW, and covers the rehabilitation of seven heating plants in Belgrade, Bor, Jagodina, Leskovac, Negotin, Niš and Senta.

At the local government level, total expenditures for reducing air pollution in 2024 amounted to around RSD 840 million, which, as in other areas, includes funds transferred from the national budget. The main activities of cities and municipalities aligned with the programs implemented at the national level, focusing on reducing pollution from individual heating systems and refurbishing boiler rooms. In terms of individual cities, the largest expenditure by far was recorded in Vranje (almost RSD 580 million invested in the district heating system), followed by Valjevo (around RSD 74 million), Niš (around RSD 26 million), as well as Belgrade and Zaječar (with approximately RSD 14 million each).

Although air protection policy is primarily focused on the local level, where agglomerations with excessively polluted air are required to adopt and implement air quality plans, monitoring the implementation of defined measures through budget data remains difficult. The main reason is the lack of transparency, which prevents precise linking of expenditures to specific activities outlined in the plans. The only examples of good financial reporting practices in the implementation of these measures continue to be the cities of Bor and Belgrade.

Planned expenditures for air protection in the 2025 budget amount to just under RSD 2.2 billion, which is a decrease of about 20% compared to their 2024 level. The Government intends to continue implementing the same policies, but with reduced funding for most of the existing projects. Within the Ministry of Environmental Protection's budget, allocations for boiler room refurbishments have been cut to RSD 350 million, and incentives for eco-friendly vehicles to RSD 170 million, while funding for reducing pollution from individual sources remains at a similar level (RSD 130 million). At the same time, the budget for the district heating project in Kragujevac has been increased to RSD 200 million. The Ministry of Mining and Energy also plans to allocate a smaller amount (RSD 436.6 million) for the continuation of the district heating system rehabilitation project. However, a novelty in the 2025 budget is the new project Energy Efficiency and Air Quality, financed through

EU pre-accession funds (IPA 2025), with an allocation of RSD 860.2 million, making it the largest planned expenditure in this area.

Nature Protection

Expenditures from the national budget for **nature protection** in 2024 amounted to just over RSD 1.2 billion, which is a significant increase of nearly 50% compared to 2023. Virtually all of these expenditures were financed through the budget of the Ministry of Environmental Protection (MEP). The largest portion, RSD 486 million, was allocated as incentives for the implementation of management programs for protected natural resources, providing direct support to national parks and other managing entities. Additionally, RSD 299 million were allocated for the operations of the key expert institution in this field, the Institute for Nature Conservation of Serbia. A portion of the funds was also invested in direct on-the-ground activities, such as targeted afforestation projects aimed at protecting landscape diversity (RSD 133.5 million) and preserving land as a natural resource (RSD 50 million).

It is particularly important to highlight that, starting in 2023, a new incentive scheme has been financed under the activity Arrangement and Improvement of Nature Protection and Biodiversity Conservation, aimed at local governments whose territories include nationally designated protected areas. After an initial budget of RSD 45 million in 2023, the amount was increased to RSD 100 million in 2024.[11] These are earmarked funds for specific projects that, according to the Ministry, are expected to directly contribute to improved management, greater visibility and better infrastructure within protected areas. Projects eligible for this funding are diverse and include:

- *Improvement of tourism infrastructure* – repair and reconstruction of roads, construction and modernization of facilities (visitor centers, scenic viewpoints, observation towers and rest areas), as well as marking and development of hiking, mountaineering and cycling trails.

11 https://ekologija.gov.rs/lat/saopstenja/vesti/lokalnim-samoupravama-na-raspolaganju-250-miliona-dinara-za-ocuvanje-i-brigu-o-zasticenim-podrucjima

- *Education and presentation* – installation of informational and educational signs and the development of speleological sites (caves) for visitors.
- *Biodiversity protection* – measures that directly contribute to the conservation of endangered species and habitats.
- *Promotion and eco-tourism* – organizing events, creating promotional materials and supporting the development of sustainable tourism.

In 2024, local self-governments' expenditures on nature protection amounted to just over RSD 1.2 billion, partially including funds transferred from the national budget. However, a closer look at these expenses reveals a potential methodological issue, as there are indications that this amount sometimes covers general administrative costs for all environmental activities at the local level, which cannot be precisely separated based on publicly available data. In other words, the actual financial resources invested solely in nature protection are likely somewhat lower due to some LSGs recording other ecological expenses under budget items generically categorized as "nature protection". Regarding the allocation of funds, the most significant activities involved implementing projects funded through the Ministry of Environmental Protection competitions (such as afforestation and land protection), as well as budget subsidies for managing protected natural resources under the jurisdiction of cities and municipalities. Analyzing individual units, the highest amounts for this purpose were paid from the budgets of the City of Belgrade (RSD 372 million), the Autonomous Province of Vojvodina (around RSD 192 million) and Novi Sad (RSD 110 million).

In the 2025 budget, the Government allocated RSD 1.6 billion for nature protection, which is a quarter more than in the previous year. The majority of these funds are directed towards continuing and strengthening existing activities: incentives for protected resources management programs increased to RSD 550 million, support for the Institute for Nature Conservation of Serbia rose to RSD 317 million, while RSD 150 million were allocated for afforestation and RSD 66 million for land preservation. A particularly significant decision was

made by the Ministry in July 2025 to increase funds for projects in 24 local self-governments whose territory includes nationally important protected areas from RSD 100 to RSD 250 million.[12] Combined with direct incentives to managers, the total planned funding to support protected areas this year reaches 800 million dinars, marking an important step in the right direction. However, although increased budget allocations are necessary, they should be only part of a broader reform aimed at establishing a long-term sustainable financing model for protected areas in Serbia. Additionally, the 2025 budget includes RSD 20 million for a new support line for local self-governments, intended to fund the project for establishment of Geoparks.[13]

Forestry

In the **forestry** sector, approximately RSD 740 million were allocated from the national budget in 2024, which is a 43% decrease compared to 2023. The Forestry Administration operating within the Ministry of Agriculture, Forestry and Water Management is responsible for implementing programs in this area. The reduction in funding is mainly due to a cut in the budget for the flagship program Sustainable Development and Improvement of Forestry, which dropped from RSD 850 to RSD 550 million; this program includes several environmentally important projects such as forest protection, tree planting, construction of forest roads and production of planting material. Additionally, the implementation of the planned twinning project aimed at improving forest management, funded by IPA funds and budgeted at RSD 6 million, was completely lacking in 2024.

The 2025 budget foresees a recovery in investments, with a planned increase of about 35% to nearly RSD 1 billion. This rise can be fully explained by the planned growth in spending for the Sustainable Development and Improvement of Forestry program, which is set at RSD 800 million. However, it should be noted that the 2025 Regulation on Determining the Annual Program for the Use of Sustainable Forestry Development and Improvement Funds[14] suggests

12 Ibid.

13 The total project value is estimated at RSD 70 million, with RSD 20 million planned to be spent in 2025.

14 http://demo.paragraf.rs/demo/combined/Old/t/t2025_04/SG_031_2025_004.htm

a slightly lower allocation for this purpose, around RSD 713 million, than what is stated in the Budget Law. Moreover, a bigger issue than the amount itself or planning inconsistencies is the unfavorable cost structure, as a significantly larger portion of funds continues to be directed toward the construction and repair of forest roads rather than direct measures for maintaining and improving the quality of forest ecosystems.

Horizontal Legislation

According to official strategic documents of the Republic of Serbia, starting with the first National Strategy in 2011, aligning with the EU's horizontal legislation does not require significant financial resources. In practice, however, it is not possible to directly track the costs of implementing individual directives, only the overall expenses related to administration, management, policy development and inspection supervision by the competent institutions.

In 2024, financing for the **horizontal sector** defined as such amounted to RSD 1.2 billion – which is almost the same as in 2023 – implying that no significant measures were taken last year to strengthen domestic institutional capacities. The larger portion of this amount (around RSD 750 million) covered the general responsibilities of the Ministry of Environmental Protection, including inspections, while the Serbian Environmental Protection Agency's (SEPA) expenses for monitoring and controlling environmental quality totaled about RSD 398 million. The 2025 budget plans a substantial change, with a projected increase in investment in the horizontal sector by one-third compared to 2024, reaching RSD 1.6 billion. The planned growth will be distributed with the MEP's budget for general responsibilities rising to nearly RSD 1 billion (a 33% increase), while the Agency's available funds will grow to RSD 458 million (a 15% increase).

In the horizontal legislation sector, one of the key links in the chain of responsibility that should ensure effective enforcement of legal regulations is the Environmental Protection Inspectorate. However, it is often considered one of the weakest points in the entire system. The root of the inspection supervision problem lies in the limited capacities for its proper implementation, including an insufficient number of inspectors, poor job systematization and a lack of

technical equipment and specialized knowledge.[15] Consequently, the Coalition 27 reports repeatedly recommend solutions to these issues year after year. Among the most important recommendations are hiring new inspectors and improving the technical equipment of the service, especially by acquiring suitable vehicles for field inspections. Additionally, there has been an emphasis on providing continuous training for employees to prepare them for conducting increasingly complex inspections required by EU standards.

An analysis of budget financing of environmental protection inspections from 2023 to 2025 suggests that despite a nominal increase in costs, there has been no significant progress in addressing the identified problems. Although data show a rise in total expenditures from RSD 164.5 million in 2023 to RSD 181.7 million in 2024, with a planned RSD 204.5 million for 2025, a closer look reveals that this growth is almost entirely due to legally mandated salary increases for existing staff rather than capacity building. Indeed, the vast majority of costs, over 97%, are related to employee expenses, and their increase slightly exceeds the mandatory public sector salary indexation (10% in 2024 and 8% in 2025), implicitly indicating that there was no significant change in the number of inspectors during this period.

A similar conclusion about stagnation can be drawn from the analysis of travel expenses, which are directly related to fieldwork. These costs remained almost the same in 2023 and 2024 (between RSD 2.7 and RSD 2.8 million), and although an increase to RSD 3.65 million is planned for 2025, poor spending in previous years raises doubts about whether this plan will actually be implemented. Particularly concerning is the analysis of expenditures for specialized services, which should fund key activities such as sampling and sending samples for laboratory testing. Budget data shows a double negative trend: first, the planned amounts for this purpose have been decreasing year by year (from RSD 4.4 million in 2023 to only RSD 2 million in 2025), and second, even more alarming, the Ministry has failed to spend these already shrinking funds, with an execution rate of 57% in 2023 and only 22% in 2024. These figures suggest

15 https://www.koalicija27.org/wp-content/uploads/2020/10/izvestaj-2020.pdf

that the Inspectorate's capacity for evidence-based supervision is not only stagnating but also regressing.

Noise

Noise and vibration protection falls entirely under the jurisdiction of local authorities, and therefore, no expenses for this purpose are identified in the national budget. According to data from the Statistical Office of the Republic of Serbia, total costs in this area amounted to around EUR 9 million from 2014 to 2023, with a clear upward trend in recent years (from about EUR 0.5 million to approximately EUR 2 million annually). This increase is a direct result of the adoption of the Law on Environmental Noise Protection at the end of 2021. The Law introduced a range of new obligations for cities and municipalities: all LSGs must now conduct noise monitoring, while agglomerations (urban areas with more than 100,000 inhabitants) have the additional responsibility of creating strategic noise maps and then developing action plans to translate the situation diagnosed in the maps into concrete measures to reduce noise.

The analysis of the 2024 budgets of cities and municipalities confirms that investments in this area are a direct result of these legal obligations and follow the roadmap defined by the Law. Cities that have already fulfilled the requirement to create strategic noise maps have moved on to the next step – developing action plans. Leading this process is the City of Belgrade, which allocated just over RSD 50 million for updating acoustic zones and creating strategic maps and the Action Plan, plus an additional RSD 870,000 for monitoring, totaling RSD 51.5 million.[16] It is followed by Novi Sad, with RSD 10 million for the Action Plan,[17] and Niš, with RSD 1 million for the same purpose,[18] whereby both cities also finance regular noise monitoring (RSD 900,000 and RSD 1.3 million, respectively). Meanwhile, cities in the early stages of implementation, such as Kragujevac[19] and Užice,[20] allocated funds in 2024 to fulfill the basic

16 http://demo.paragraf.rs/demo/combined/Old/t/t2024_10/BG_122_2024_001.htm

17 http://demo.paragraf.rs/demo/combined/Old/t/t2024_02/NS_006_2024_005.htm

18 http://demo.paragraf.rs/demo/combined/Old/t/t2024_03/NIS_022_2024_002.htm

19 https://www.danas.rs/vesti/ekonomija/kragujevac-gradsko-vece-usvojilo-program-raspodele-sredstava-za-zastitu-zivotne-sredine/

20 http://demo.paragraf.rs/demo/combined/Old/t/t2024_03/UE_004_2024_001.htm

obligation – noise monitoring (RSD 270,000 and RSD 500,000, respectively). Kragujevac's 2025 plan,[21] which foresees a slight increase to RSD 300,000, indicates continuity of activities in this area, although the allocated funds remain quite modest.

The 2024 budget plans reveal a clear gap between planning and actual implementation of noise protection measures. Current investments in the leading cities (Belgrade, Novi Sad, Niš) are almost exclusively focused on soft measures: monitoring, map creation and strategic planning. Capital investments in physical noise reduction measures – such as building sound barriers, installing "quiet asphalt" on roads, or co-financing soundproofing of facades – are still absent from their budgets. However, the process of developing action plans is expected to change this. By definition, these plans must include concrete, technically feasible measures to reduce noise. Once adopted, they will become legally binding documents that will compel city administrations to plan and finance such, significantly more expensive, capital projects in upcoming budget cycles.

Finally, the budget analysis reveals another systemic flaw – a lack of focus on the problem of environmental vibrations. Although vibrations caused by heavy traffic, tram lines or construction work significantly affect quality of life, they remain financially under-recognized in local policies.

Chemicals Management

The **chemicals and biocidal products management** system is financed from the national budget. In 2024, RSD 35 million were spent from the budget of the Ministry of Environmental Protection for this purpose, which is nearly the same amount as in 2023 (RSD 34.6 million). The 2025 budget plans a significant increase in funding for chemicals and biocidal products management by over 40%, reaching RSD 49.3 million. In addition to the core budget program, the implementation of the project Further Strengthening of National Capacities for Risk Management of Hazardous Substances Throughout Their Life Cycle continued in both 2024 and 2025, with financial support from UNEP. According

21 https://kragujevac.ls.gov.rs/vest/sr/94155/program-monitoringa-buke-i-kvaliteta-vazduha-u-kragujevcu-za-2025-godinu.php

to the original plan, the project is expected to be completed this year. In 2024, RSD 6.9 million were spent on its implementation, while RSD 13.7 million have been allocated for it in this year's budget.

The core principles established by REACH and the Biocidal Products Regulation (BPR), as well as the accompanying EU implementing regulations, stipulate that the costs related to regulatory procedures concerning chemicals and biocidal products must be borne by economic operators who generate income from placing these products on the market. However, even the new Law on Biocidal Products, adopted in 2021, failed to incorporate the EU fee-based model, as it is not aligned with the domestic system governing the collection of taxes and fees. Although there is a sub-account for the payment of national administrative fees for chemicals and biocidal products, due to the structure and functioning of the budgetary system, there is no available data on the amount of revenue generated from fees intended to cover the costs of providing administrative services for implementing regulatory procedures and developing the chemical and biocidal product management system. It is also unclear whether, and to what extent, these costs are being covered by funds collected from other taxpayers, namely, those who do not derive income from chemicals and/or biocidal products. The existing system needs an urgent reform, as earmarked funds (fees) could also be used for hazard, exposure and risk assessment of biocidal products (which does not fall under regular administrative procedures) and this would benefit all citizens of Serbia by protecting human health and the environment.

Industrial Pollution

The Industrial Emissions Directive (IED) is considered one of the most demanding to implement, as full implementation of the IED and the corresponding Serbian legislation will require significant financial investments from operators. It is expected that the private sector will provide the necessary investments to ensure compliance with directives in this field. The Statistical Office of the Republic of Serbia collects data on current expenditures and investments in environmental protection, and likely also in the area of industrial pollution, made by economic operators. However, based on publicly available information,

it is not possible to determine what portion of the total costs can be attributed specifically to the implementation of the IED. Additionally, the state administration has not allocated any funds for the implementation of this part of the EU acquis, except potentially for strengthening administrative capacities of competent authorities.

The Starting Points of the Draft Law on Integrated Prevention and Control of the Environment Pollution note that one of the reasons for the low number of applications for issuing IPPC permits in the previous period is the high cost of aligning the existing installations with the best available techniques (BAT) and the emission limit values prescribed by BAT conclusions. It is emphasized that these costs need to be thoroughly analyzed through a financial assessment. In the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, the Government defined as one of the key measures (Measure 3.2) an incentive program for investments in industrial production encouraging the use of high technologies that produce less impact on the environment, whose application is expected to make a significant contribution to the environmental protection. The effects of this measure will be evaluated by the investment volume and user satisfaction. However, it remains unclear how far the implementation has progressed, as a specific budget line for disbursing these incentive funds is yet to be established.

Legislative Framework

The cornerstone of the legal framework for environmental protection in the Republic of Serbia is the Law on Environmental Protection,[22] which establishes an integrated protection system and defines the fundamental principles, stakeholders, and instruments, including economic ones that form the basis for

22 Official Gazette of RS, nos. 135/2004, 36/2009, 95/2018 – as amended, available at: https://pravno-informacioni-sistem.rs/eli/rep/sgrs/skupstina/zakon/2004/135/8/reg

financing in this field. The Law explicitly sets out principles that directly imply financial obligations, most notably the polluter pays principle and the principle of liability for environmental damage. Article 88 of the Law also defines the main sources of financing, which include funds from the budgets of all levels of government, revenues from pollution and public resource usage fees, donations, as well as earmarked funds from the Green Fund of the Republic of Serbia.

However, situation analysis reveals a significant gap in practice: aside from the evident progress in terms of funds allocated from the national and local government budgets, which is certainly necessary and commendable, there has been a persistent lack of progress in establishing other institutional elements of a sustainable environmental financing system. The most prominent example of this kind of "institutional atrophy" is the Green Fund of the Republic of Serbia. Although the Government formally established the fund back in 2016 with the intention of creating a budgetary mechanism for dedicated environmental investments, and the Law on Environmental Protection from 2018 further specified that these funds should be allocated through public calls, the Green Fund has never truly become operational. Following the abolition of the previous Environmental Protection Fund in 2012, the newly established Green Fund has remained an "empty shell", as the necessary by-laws that would enable its functioning were never adopted.

The consequences of this situation are both multiple and systemic. The fact that revenues from environmental taxes and fees flow into the general budgets of the Republic and LSGs rather than into a dedicated fund, indicates that – strategically – fiscal centralization continues to be prioritized over sectoral efficiency, while also undermining the principle of earmarked spending. The current system prevents transparent tracking of financial flows, hampers long-term, multi-year investment planning and fails to safeguard funds collected from polluters from being redirected to other purposes during budget execution. The longstanding dysfunction of the Green Fund is, therefore, perhaps the clearest symptom of a lack of political will to establish a transparent domestic financing system for environmental protection, which in the long run, could become a serious risk if the implementation of environmental policies in Serbia becomes overly dependent on external sources of funding.

An attempt to regulate the system of collecting environmental taxes and fees was made at the end of 2018 with the adoption of the Law on Fees for the Use of Public Goods.[23] Although this Law created the appearance of an organized system, a more detailed analysis of how the collected revenues are distributed reveals significant fragmentation, which contradicts the principle that the polluter should pay "at the source." Specifically, the system is not designed to direct funds to where pollution actually occurs. For example, a municipality hosting a thermal power plant receives only 40% of the revenue from sulfur dioxide and nitrogen oxide emission fees,[24] while revenues from specific waste streams fees (e.g. for tires) generated within its territory are entirely allocated to the national budget. The most widespread environmental fee, the so-called eco-tax, is fully retained by LSGs, but the amount is determined as a lump sum based on the type and size of the company, rather than on actual pollution levels. In practice, this can lead to paradoxical situations where a large IT company pays a significantly higher fee than a small enterprise that is an actual polluter. Such a system makes it difficult for local self-governments to independently finance the resolution of their own environmental "hotspots" and renders them dependent on transfers from the national budget, which are not always transparent or based on clear criteria.

The Law on Fees for the Use of Public Goods underwent amendments at the end of 2023, which came into effect on January 1, 2024, but these amendments mainly involved procedural improvements. For example, a new regulation issued in April 2024 (Official Gazette of RS, no. 30/2024)[25] moved the deadline for submitting eco-tax declarations from July 31 to April 30, requiring urgent adaptation by economic operators, while the actual fee amounts remained unchanged. Additionally, a new Form 1 was introduced, which must now be submitted exclusively electronically through the Local Tax Administration portal. Thus, these amendments can be seen as modernizing the procedure

23 Official Gazette of RS, nos. 95/2018, 49/2019 and 92/2023, available at: https://pravno-informacioni-sistem.rs/eli/rep/sgrs/skupstina/zakon/2018/95/17/reg

24 Moreover, if the polluter is a company of national interest, then 80% of the revenue goes to the national budget, and 20% to the local self-government in whose territory the company is located (Article 133).

25 https://www.paragraf.rs/propisi/uredba-o-kriterijumima-za-odredjivanje-aktivnosti-koje-uticu-na-zivotnu-sredinu-prema-kolicini-zagadjenja.html

itself but do not address the fundamental problems related to the inadequate structure and distribution of revenues from environmental taxes and fees.

The annual progress reports of the European Commission for Serbia from 2018 to 2024 highlight these issues as well, showing a clear pattern of recurring recommendations. The 2018 Report laid out fundamental requirements: operationalize the Green Fund, apply the polluter pays principle and strengthen administrative capacities for transposing and implementing European directives in the field of environmental protection and climate change.[26] Nearly identical demands were repeated in the 2019[27] and 2020 Reports.[28] The 2021 Report[29] noted increased budget allocations for the environment, but pointed out that this was largely due to increased foreign borrowing. For the first time, the 2021 Report explicitly required Serbia to earmark all revenues from environmental taxes and fees for ecological purposes. The 2022 Report[30] reiterated these concerns and for the first time directly mentioned the insufficiently transparent arrangement with the Chinese company China Road and Bridge Corporation (CRBC) for the construction of sewage infrastructure. General assessments of limited progress in 2023 and 2024 suggest that these systemic problems persist.[31, 32]

This chronological overview reveals a pattern that can be described as a dialogue of the deaf. The European Commission has been repeating the same systemic recommendations year after year (operationalizing the Green Fund, earmarking revenues and ensuring investment transparency), while Serbia responds with formal but not substantive changes. For instance, progress is demonstrated through increases in the nominal amount of budget allocations, yet systemic issues such as the dysfunctional Green Fund or lack of spending transparency are ignored. Thus, while the environmental financing system

26 https://enlargement.ec.europa.eu/document/download/377c86c1-1cb6-49ca-8549-e40be2308643_en?filename=20180417-serbia-report.pdf

27 https://enlargement.ec.europa.eu/serbia-report-2019-0_en

28 https://enlargement.ec.europa.eu/system/files/2020-10/serbia_report_2020.pdf

29 https://enlargement.ec.europa.eu/system/files/2021-10/Serbia-Report-2021.pdf

30 https://enlargement.ec.europa.eu/system/files/2022-10/Serbia%20Report%202022.pdf

31 https://enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_695_Serbia.pdf

32 https://enlargement.ec.europa.eu/document/download/3c8c2d7f-bff7-44eb-b868-414730cc5902_en?filename=Serbia%20Report%202024.pdf

may appear relatively well-structured on paper, in practice, there are numerous weaknesses that expose a significant gap between the legal framework and its implementation.

Most of the weaknesses in the domestic environmental financing system, as previously described in this chapter, have also been acknowledged in the Draft Environmental Protection Strategy – Green Agenda for the Republic of Serbia for the period 2024-2033,[33] which is expected to be adopted in the near future. It is commendable that this overarching strategic document, in addition to estimating the necessary funding, pays special attention to financing as a distinct pillar of reform and includes a list of objectives and measures in this area. However, the overall impression is that this section of the Draft Strategy lacks sufficient specificity and ambition. The planned activities are defined too broadly, without a clear strategic orientation regarding the direction that the reform of the environmental financing system should take, and some of the proposed deadlines already appear unrealistic. For example, key activities such as the Analysis of Sustainable Financing Instruments, and the Definition of Institutional and Legal Framework are scheduled to be completed by the end of 2025 – even though the strategy itself had not been adopted as of July 2025.

According to the Draft Strategy, the key measures include an analysis of existing instruments, the definition of a new framework, the development of a methodology for tagging green expenditures, the introduction of green budgeting and, ultimately, the full operationalization of the system by the end of 2026. Although the list of planned activities is comprehensive, their overly general formulation and unrealistic deadlines suggest that, for now, this appears to be more about formally fulfilling obligations than about having a clear plan and genuine readiness for a swift and decisive reform of the environmental financing system.

It is important to highlight that the implementation of one of the activities listed in the Draft Strategy has already begun during 2024. This refers to the development of a methodology for identifying and tracking projects and

33 https://www.ekologija.gov.rs/informacije-od-javnog-znacaja/javne-rasprave/javni-poziv-za-ucesce-javnosti-u-procesu-konsultacija-u-vezi-sa-izradom-strategije-zastite-zivotne-sredine-zelena-agenda-republike-srbije-za-period-2024-2033-godine

measures in the budget of the Republic of Serbia that have a positive impact on the environment and climate. This process, known as green tagging, is the first step toward introducing green budgeting, thereby aligning Serbia with global trends in public finance management. As a result, a special annex to the 2025 Budget Law of the Republic of Serbia has been published (Annex 1 – Green Budget),[34] which contains methodological explanations of this new budgeting tool, along with Annex 1a, which lists the identified green programs and projects in the budget. Although still in its early stages, this document represents a pioneering step that could, over time, contribute to improving the environmental financing system, and it certainly enhances transparency and facilitates a better understanding of public spending related to environmental protection.

According to the Ministry of Finance, as referenced in Annex 1, the tagging is carried out in accordance with the Roadmap and Methodology for Green Budget Tagging from December 2023, which defines several levels of criteria:

- *Primary criteria (light tagging)*: This approach includes tagging only those budget items that are clearly environmentally beneficial and aligned with the EU Green List. It is sufficient for the intention or objective of the activity to have a positive impact (e.g., flood prevention, procurement of environmentally friendly products, etc.).

- *Secondary criteria:* For ambiguous cases that are not on the EU Green List, a counterfactual scenario is applied. The project is compared to a situation in which it would not be implemented; if the damage in that case would be greater, the project is tagged as green (e.g., rail transport is considered greener than road transport, even when using diesel trains).

- *Transitional technologies*: In line with the EU taxonomy, some activities that use transitional technologies can, under strict conditions, be tagged as green: 1) if there are no technologically

34 https://www.mfin.gov.rs/propisi/zakon-o-budzetu-republike-srbije-za-2025-godinu-slubeni-glasnik-rs-br-942024

and economically feasible low-carbon alternatives; 2) with evidence that the specific activity contributes to the transition toward a climate-neutral economy, without creating a lock-in to carbon-intensive technologies.

Annex 1a of the 2025 Budget Law of the Republic of Serbia contains, for the first time, a published list of green budget projects. It includes 64 projects and program activities, with a total allocation of RSD 118.5 billion. In this initial phase of tagging, the projects included fall under the jurisdiction of five budget users: the Ministry of Environmental Protection, the Republic Water Directorate, the Forest Administration, the Ministry of Construction, Transport and Infrastructure and the Ministry of Mining and Energy. As presented in Table 1, all green projects have been categorized, in accordance with the methodology, into six groups based on their primary objective: climate change mitigation, climate change adaptation, pollution prevention and control, transition to circular economy, water resource sustainability and protection and biodiversity and ecosystem protection and restoration. The investment structure reveals a significant concentration of funds, with the largest share, as much as 56.7%, allocated to climate change mitigation, followed by 27.1% for pollution prevention and control, and 9.8% for climate change adaptation, while the remaining three categories collectively account for only 6.4% of the total funds.

Table 1: Green projects in the 2025 budget per primary environmental protection objectives

	No. of projects	Planned funds (in bil. RSD)
Climate Change Mitigation	19	67.2
Pollution Prevention and Control	25	32.1
Climate Change Adaptation	9	11.6
Transition to Circular Economy	2	3.6
Water and Marine Resource Sustainability and Protection	5	2.5
Biodiversity and Ecosystem Protection and Restoration	4	1.6
Total	**64**	**118.5**

Source: Calculation based on data from Annex 1a – List of Green Projects, 2025 Budget Law of the Republic of Serbia

It is important to understand why the value of the listed green projects (RSD 118.5 billion) is nearly twice as high as the estimated environmental protection expenditures (close to RSD 60 billion), as presented in the analysis in previous chapters. The explanation lies in the applied tagging methodology. Specifically, the list includes several large infrastructure projects that are tagged as green based on the secondary, counterfactual scenario. These projects, primarily investments in rail and river transport, do not directly improve environmental quality on their own, but are considered green because they are a more environmentally friendly alternative to road transport, which generates higher emissions of greenhouse gases and other pollutants.

The total value of such projects is around RSD 68 billion, of which over RSD 60 billion refers to just four infrastructure undertakings: the construction of the Zemun Polje–National Stadium railway line (RSD 18 billion), the Hungarian-Serbian railway project (RSD 18 billion), the reconstruction of the Niš–Dimitrovgrad railway (RSD 13 billion) and the construction of the Belgrade subway (RSD 11.5 billion). When their value is subtracted from the total amount, the remaining sum is about RSD 50 billion allocated directly to environmental protection and climate change, which is consistent with the estimate given in this analysis. It should be noted that the list of green projects in Annex 1a still does not include all budget users, nor does it account for general management, supervision, monitoring costs and similar expenses – including these would bring the total planned amount close to RSD 60 billion in 2025.

The process of introducing green budgeting in Serbia is still in a very early stage, making it difficult to assess the ultimate scope of the initiated reform. What already stands out as an added value, however, is increased transparency, which enables citizens to have easier insight into how the state directs a portion of taxpayers' money toward projects in the areas of environmental protection and climate change.

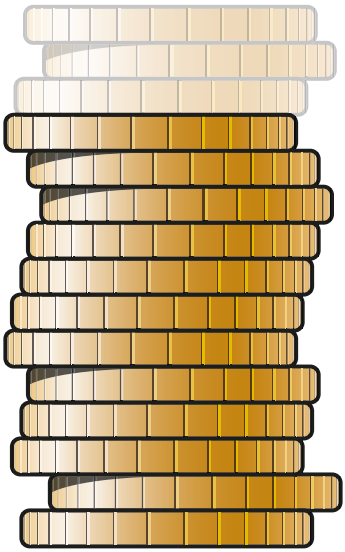
However, it is important to keep in mind that green budgeting is not just about financing green projects and presenting them with transparency. It is a systemic approach that should ensure the entire budget becomes a tool for achieving sustainable development and carbon neutrality objectives. This

process involves integrating the environmental perspective into all phases of the budget cycle – from planning and preparation, through adoption and execution, to monitoring and auditing – so that every decision regarding public revenues and expenditures is made with consideration of its environmental impact. The ultimate goal of green tagging is not only to identify projects with positive effects, as is currently the case in Serbia, but to enable clear tracking of budget items that have positive, neutral or negative impacts on the environment. Only such a systematic budget analysis allows governments to identify and gradually phase out subsidies and other incentives harmful to the environment (the so-called brown investments), such as those for fossil fuels, and to redirect those funds toward green priorities and innovations. This is a path that Serbia is yet to take.

Recommendations

1. Adopt all the by-laws that will enable the functioning of the Green Fund as the central entity for collecting and earmarking funds.
2. Amend the Budget System Law and the Law on Environmental Protection to ensure that funds from all environmental fees are used exclusively for financing environmental protection.
3. Reform the Law on Fees for the Use of Public Goods to align the distribution of revenues from environmental fees with the polluter pays principle at the source.
4. Ensure complete transparency in the implementation of projects related to environmental protection and climate change, especially infrastructure projects, regardless of the source of funding.
5. Continue increasing budget allocations for environmental protection from the national budget, with a particular focus on areas that currently receive limited funding.
6. Increase the number of employees working in the fields of environmental protection and climate change, especially within inspection services, at both the central and local levels of government.
7. Implement a legally mandated functional classification of budget expenditures at both the central and local levels of government to facilitate tracking of environmental protection spending.
8. Continue the implementation of green budgeting in line with good practices and recommendations from international organizations, such as the European Commission and the OECD.

FINANCING IN THE FIELD OF ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE



+25% Planned growth continuation in 2025

Budget expenditures for environmental protection in 2024 reached a record high of

RSD 48.3 billion

Out of which 75% goes to the water and waste management sectors **75%**

The largest project is **Clean Serbia**, with RSD **12** billion allocated

In the national budget for 2025, **64 green projects** were tagged for the first time, with RSD

118.5

billion allocated for that purpose

Out of the total allocated amount,

RSD 68 billion

were earmarked for large infrastructure projects (railways, metro), which were **tagged as green** only because they are a more environmentally friendly alternative to road traffic

Sources: Data from the Treasury Administration on the 2024 budget execution; 2025 Budget Law of the Republic of Serbia (Official Gazette of RS, no. 94/2025): *https://mfin.gov.rs/propisi/zakon-o-budzetu-republike-srbije-za-2025-godinu-slubeni-glasnik-rs-br-942024*; Annex 1a – List of Green Projects from the 2025 Budget Law of the Republic of Serbia: *https://mfin.gov.rs/propisi/zakon-o-budzetu-republike-srbije-za-2025-godinu-slubeni-glasnik-rs-br-942024*

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