

Financing in the field of environmental protection and climate change

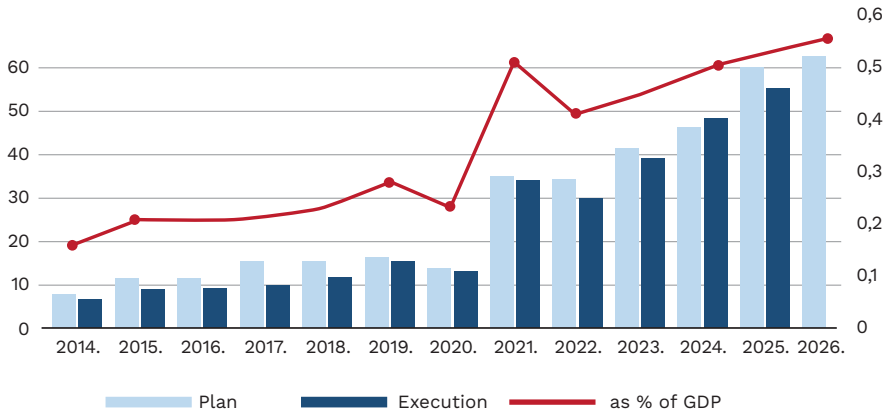
Introduction

Establishing sustainable financing in the fields of environmental protection and climate change is one of the most important issues in the EU accession process. Negotiating Chapter 27 is considered the most technically complex and financially demanding, as it requires transposing extensive European legislation into domestic law, followed by its effective implementation in areas such as water and waste management, climate change, and industrial pollution. The scale of necessary investments was also established in the Environmental Protection Strategy until 2033, adopted in July 2026, which estimates the total costs of achieving the goals at EUR 27.2 billion. The largest part of said amount relates to decarbonization and climate change, while only 4–6% of these costs are expected to be covered directly from the state budget.

Despite the growth in total allocations, Serbia still does not fundamentally apply the polluter pays principle. The problem lies not only in sluggish reforms but also in the design of financing instruments. Since its establishment in 2016, the Green Fund has been set up as a regular budget appropriation, lacking a mechanism that would automatically earmark environmental fee revenues to environmental protection. A similar shortcoming is present with the new greenhouse gas emissions tax, introduced in late 2025 as part of the preparation for the Carbon Border Adjustment Mechanism (CBAM): the law does not stipulate that future revenues must be earmarked for decarbonization.

Nevertheless, the level of spending continued its upward trend. National budget expenditures for environmental protection reached a historic high in 2025, exceeding 0.5% of the gross domestic product, with the 2026 budget projecting further, albeit more moderate, growth (Figure 1). This growth, however, was not accompanied by significant systemic improvements. The adoption of the Environmental Protection Strategy and the introduction of a domestic carbon tax represent formal steps forward, but both – as demonstrated by the analysis in this report – share the same structural weaknesses observed in previous Coalition 27 reports.

Figure 1. Environmental protection expenditures from the national budget, 2014–2026 (in billions of RSD and as % of GDP)



Source: Calculation based on data from the final budget account of the Republic of Serbia for the 2014–2025 period and the 2026 Budget Law of the Republic of Serbia

Overview of financing in the field of environmental protection and climate change in 2025 and 2026

According to the budget execution data of the Republic of Serbia,[1] total expenditures for environmental protection and climate change reached RSD 54.85 billion in 2025, representing 0.53% of the gross domestic product (GDP). As illustrated in Figure 1, this marks a new historical high in absolute terms and the third consecutive year of growth. Relative to GDP, this also represents the highest level of environmental spending since these data have been tracked, exceeding the previous record from 2021. In comparison to 2024, expenditures increased by RSD 6.6 billion, or 13.6%. Unlike the previous year, the budgeted amounts were not fully spent. The 2025 Budget Law provided for nearly RSD

1 Data on 2025 budget execution of the Republic of Serbia, Treasury Administration of the Ministry of Finance.

60 billion, with 91.7% of the plan actually executed, i.e., approximately five billion dinars short of the approved amount. Unlike in 2024, when expenditure exceeded the budgeted amount, the 2025 result does not indicate a steady improvement in the capacity to spend funds according to plan. Despite record spending, expenditures for environmental protection and climate change accounted for about 2.1% of the total national budget expenditures.

Nominal amounts, however, somewhat overestimate the actual scale of growth. National budget expenditures for environmental protection have increased 8.4 times in nominal terms since 2014, yet, with cumulative inflation nearing 59% over the same period,[2] the real increase is 5.3 times.[3] The same holds true for 2025: instead of a nominal 13.6%, real growth amounted to 9.5%. Adjusting for inflation alters the trajectory illustrated in Figure 1. Rather than a steady upward trend, the real amounts show two separate spikes – the first in 2021 and the second in 2024 – between which spending stagnated, meaning the level reached in 2021 in real terms was not exceeded until 2024.

The largest deviation from the plan was observed in projects financed through IPA funds. Of RSD 9.7 billion allocated for ten projects, a mere RSD 2.5 billion – or 26% – was spent. Four projects saw no disbursements at all, including the establishment of a regional waste management system for Novi Sad and six neighboring municipalities (RSD 1.7 billion), and the energy efficiency and air quality project (RSD 860 million). Unspent IPA funds exceeded the total spending shortfall relative to the planned 2025 budget, while spending above the budgeted amounts on some other projects partially offset the overall deviation. This highlights a long-standing issue: the average absorption rate of these funds in the 2014–2023 period stood at around 50%,[4] making the 2025 result a deterioration relative to an already low multi-year average. Insufficient administrative capacities to prepare and implement projects – an issue which the European Commission has been pointing out for years – remain a serious constraint. Ultimately, the problem is less a lack of funds than the capacity to use them.

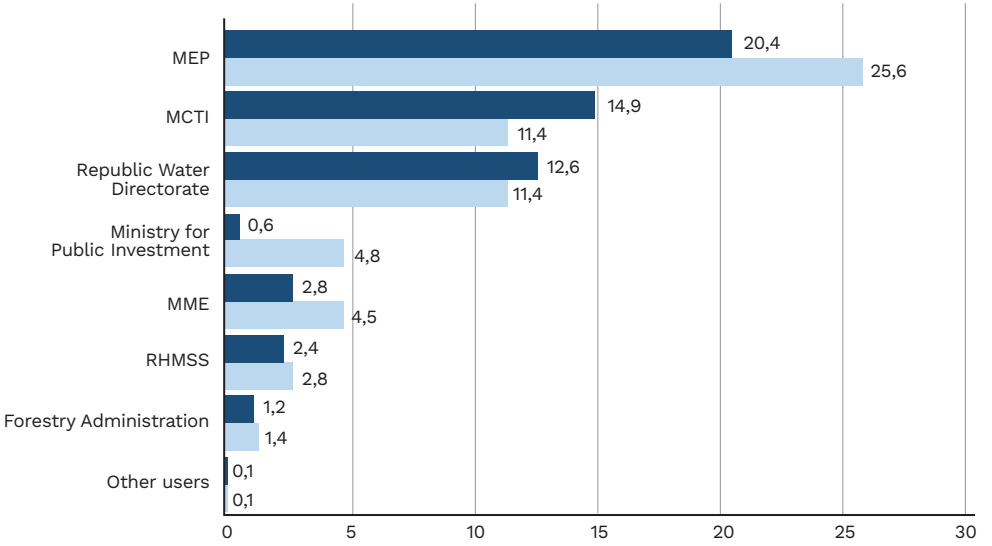
2 Calculation based on average annual growth rates of consumer prices, Statistical Office of the Republic of Serbia.

3 Expressed in euros, allocations rose from 56 million in 2014 to 468 million in 2025; given the stability of the exchange rate, this series shows the same nominal dynamics as the dinar series.

4 Coalition 27 (2024). Chapter 27 in Serbia: Years Go By, We Stand Still, April 2023 – April 2024, Belgrade, pp. 9–44.

When analyzed by budget users, the expenditure structure in 2025 indicates that funds remain concentrated among a small number of users, though with a certain shift compared to the previous year (Figure 2). The largest portion of funds continues to be spent by the Ministry of Environmental Protection (MEP), which, including the Environmental Protection Agency and institutions under its authority, spent RSD 20.4 billion. However, this is practically the same amount as in 2024, even though the plan projected a rise to RSD 23.8 billion. The line ministry executed only 85.6% of its own budget, thereby reducing its share in total environmental protection expenditures from 43% to 37%. In contrast, the Ministry of Construction, Transport, and Infrastructure spent RSD 14.9 billion (27%), primarily through the Clean Serbia project, which utilized RSD 14.6 billion instead of the budgeted RSD 10 billion. The biggest shift was recorded at the Republic Water Directorate, where spending doubled – from RSD 6.1 to 12.6 billion – which is a quarter above the plan and accounts for 23% of all spending in the sector. These three users together account for 87% of the total expenditures for environmental protection. The performance across other institutions is significantly weaker: the Ministry of Mining and Energy's spending fell by RSD 2.5 billion, executing only 71% of its budget, while the Ministry for Public Investment utilized only RSD 640 million out of the planned 2.5 billion, i.e., 25.7%, thereby repeating the previous year's pattern of low execution. All other budget users combined accounted for the remaining RSD 3.6 billion. Overall, expenditure growth in 2025 was focused on several large-scale infrastructure activities, primarily under the Ministry of Construction, Transport and Infrastructure and the Republic Water Directorate. At the same time, several budget users fell short of their planned targets, reflecting an uneven level of budget execution across sectors.

Figure 2. Structure of environmental protection and climate change expenditures per budget users 2025 execution and 2026 plan (in billions of RSD)



Source: Calculation based on the Law on the Final Account of the Budget of the Republic of Serbia for 2025, and 2026 Budget Law of the Republic of Serbia

The 2026 budget announces a continued increase in environmental protection expenditures, albeit at a more moderate pace compared to previous years. The 2026 Budget Law of the Republic of Serbia[5] allocates nearly RSD 62 billion for environmental protection and climate change, which represents an increase of RSD 7.1 billion, or 13%, compared to the 2025 execution. If this plan is fully met, allocations will reach 0.56% of GDP and 2.3% of total national budget expenditures, achieving record highs for both indicators. In relation to the previous year's plan, however, the growth rate stands at just 3.6%, marking a noticeable slowdown compared to the double-digit increases in budgeted amounts in the preceding two years. The structure of the planned growth is also shifting: after a year in which funds were directed toward infrastructure projects, 2026 is expected to see the line ministry return to the forefront, with RSD 25.6 billion and a 41% share. In contrast, the budget of the Ministry of Construction,

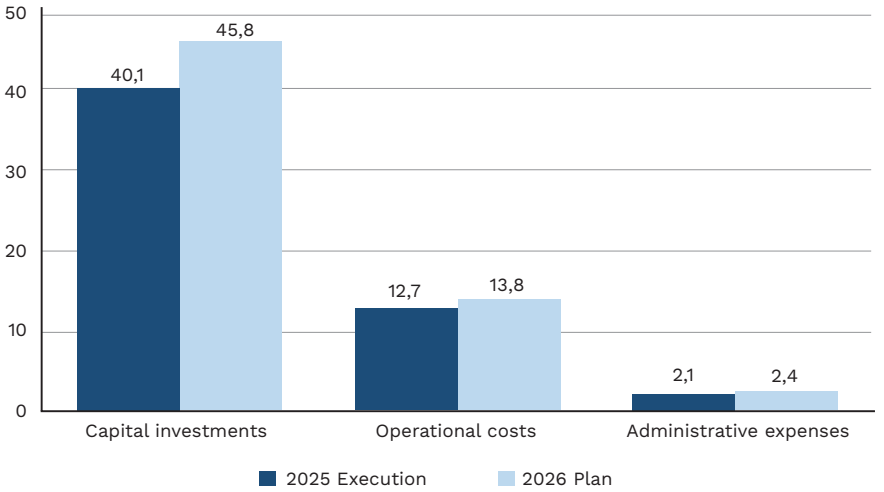
5 https://www.mfin.gov.rs/propisi/zakon-o-budzetu-republike-srbije-za-2026-godinu-slubeni-glasnik-rs-br-1082025

Transport, and Infrastructure is being reduced by nearly a quarter. This decline is primarily due to the fact that RSD 8 billion has been planned for the Clean Serbia project – significantly less than the RSD 14.6 billion spent in the previous year – with the accompanying budgetary documentation offering no explanation for such a major change. Nonetheless, the question remains as to how realistic this plan actually is. Despite an absorption rate of only 26% in the previous year, the scale of planned IPA projects has actually increased to RSD 10.2 billion spanning eleven projects. Furthermore, the Ministry for Public Investment, which executed only a quarter of its budgeted amount in 2025, has now been allocated as much as RSD 4.8 billion – over seven times more than it spent last year. Implementing the 2026 budget plan will primarily depend on accelerating the IPA projects implementation rate and increasing budget execution by the Ministry for Public Investment. Should the poor performance from 2025 be repeated, the projected growth in expenditures may fall short.

In 2025, the economic structure of expenditures continued to favor capital investment (Figure 3). Capital investments amounted to RSD 40.1 billion, accounting for 73.1% of all environmental protection spending. These funds primarily relate to the construction of sewer networks and wastewater treatment plants, regional waste management centers and river training works. Compared to the previous year, capital expenditures increased by four billion dinars, but their share edged down from 74.7% to 73.1%. It is particularly noteworthy that capital investments were also the best-executed expenditure category, reaching a 92.8% execution rate. This marks a major shift from past trends, where investment spending was precisely what usually fell short. Operational costs totaled RSD 12.7 billion (23.2%), representing the fastest-growing category with an increase of 44% compared to 2024. The largest portion of this amount comprises incentives for waste reuse and recovery, i.e., for the recycling industry (RSD 3.4 billion), alongside subsidies to public enterprises responsible for forestry, hunting, and management of protected natural areas (1.5 billion). Administrative expenses, which include employee salaries and benefits, stood at RSD 2.1 billion, representing 3.7% of total spending. The 2026 budget anticipates maintaining this structure, with capital investments rising to RSD 45.8 billion and a slight increase in their share to 73.9%. The high proportion of capital expenditures is a positive element of the budget structure, given the significant infrastructure

deficit in wastewater and waste management. However, the actual results will also depend on the quality of project preparation, their maintenance upon completion of construction, and the capacity of the relevant institutions.

Figure 3. Economic structure of environmental protection expenditures, 2025 execution and 2026 plan (in billions of RSD)



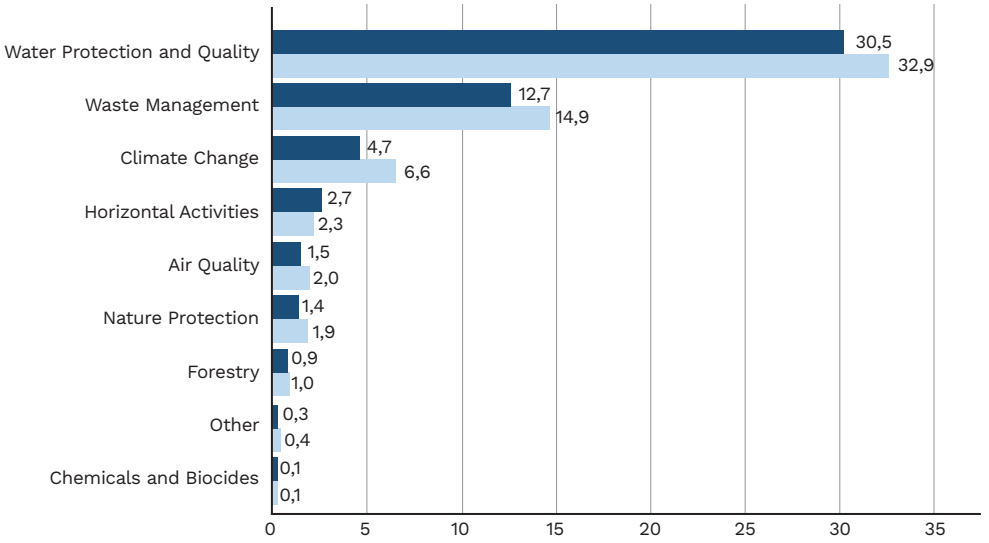
Source: Calculation based on the Law on the Final Account of the Budget of the Republic of Serbia for 2025, and 2026 Budget Law of the Republic of Serbia

Sectoral structure of environmental protection expenditures in 2025 and 2026

Sectoral expenditure analysis shows that the concentration of funds in 2025 was further intensified (Figure 4). A total of RSD 30.5 billion, or 55.6% of all environmental protection funds, was spent on water protection and quality, while waste management accounted for RSD 12.7 billion (23.2%). Together, these two sectors absorbed 79% of the budget, compared to 74% in the previous year, fulfilling

last year's forecast that the most infrastructure-intensive areas would claim nearly four-fifths of the budgetary resources. Moreover, this budget expansion was almost entirely driven by the water sector, which saw an increase of RSD 6.3 billion out of a total RSD 6.6 billion. All other sectors combined grew by a mere RSD 300 million, with spending declining in two sectors: climate change funding dropped by RSD 1.2 billion year-on-year to RSD 4.7 billion (8.6%), while air quality funding fell to RSD 1.5 billion, accounting for 2.8% of total spending – the lowest share since these data have been tracked. These are followed by horizontal administration and supervision activities with RSD 2.7 billion (4.8%), nature protection with 1.4 billion (2.6%) and forestry with 850 million (1.6%). A total of RSD 46 million was spent on the management of chemicals and biocidal products, while the remaining RSD 330 million refers to related areas such as hunting and seismic monitoring. The 2026 budget introduces a shifting growth distribution: the water sector funding exhibits the slowest growth across all sectors (7.8%), while climate change allocations are set to rise by 40%, nature protection by 30%, and air quality by 26%. Consequently, the budget share for water management would drop to 53.1%, for the first time after several consecutive years of growth.

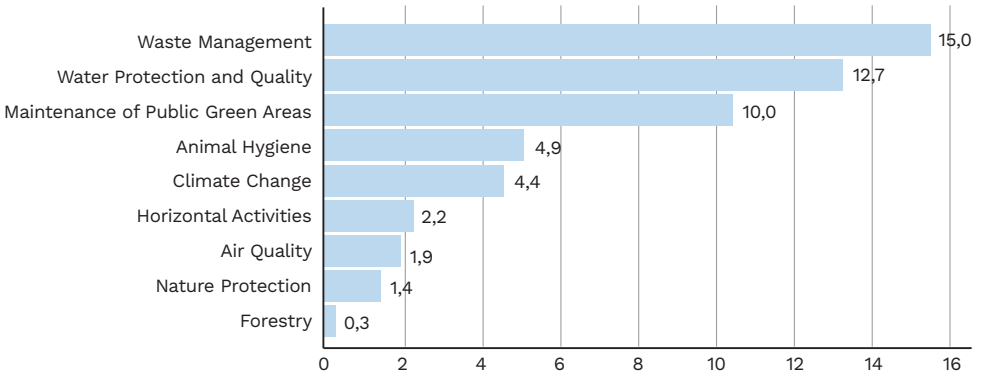
Figure 4. Sectoral structure of national budget environmental protection expenditures, 2025 execution and 2026 plan (in billions of RSD)



Source: Calculation based on the Law on the Final Account of the Budget of the Republic of Serbia for 2025, and 2026 Budget Law of the Republic of Serbia

Given that a significant portion of competencies in the field of environmental protection is vested in cities and municipalities, an important part of these activities is financed through local government budgets. According to budget execution data for 168 local self-government units (LSGs),6 total expenditures associated with environmental protection in 2025 amounted to RSD 52.9 billion. Their structure differs considerably from that of national-level expenditures (Figure 5): the largest share, RSD 15 billion or 28.4%, was directed toward waste management, followed by water protection with RSD 12.7 billion (24.1%), maintenance of public green areas with RSD 10 billion (19%), animal hygiene services with RSD 4.9 billion (9.2%), and climate change with RSD 4.4 billion (8.4%). A total of RSD 5.8 billion was spent on horizontal activities, air quality, nature protection and forestry. Two major items – maintenance of greenery and animal hygiene – lack corresponding line items in the national budget as they fall under municipal utility services, therefore, a narrower expenditure total of RSD 38 billion can be used for comparison against the national level. As in previous years, it is incorrect to simply add these amounts to the national government's expenditures, as a portion of local activities is financed through transfers from the national budget. Data on financing sources indicate that transfers from other levels of government account for 9.3% of local environmental expenditures.7 This figure, however, should be taken with a grain of salt, since local self-government units do not always record funding sources consistently.

Figure 5. Structure of local government environmental expenditures by sector, 2025 (in billions of RSD)



Source: Calculation based on the 2025 LSGs budget execution data

6 2025 Local Self-Government Budget Execution Data, Treasury Administration of the Ministry of Finance.

7 These include financing source 07 (transfers from other levels of government) totaling RSD 3.4 billion, and source 17 (unspent transfer funds from other levels of government carried forward from previous years), amounting to RSD 1.5 billion.

How was local government environmental spending measured?

At first glance, the reported figure of RSD 52.9 billion for 2025 appears to be significantly higher than the figure from last year's report, which put local government environmental protection spending for 2024 at RSD 30.6 billion. This apparent sudden spike, however, is not the result of an actual increase in funding, but rather a shift in the methodology used to determine these expenditures. Namely, prior report analyses relied exclusively on the functional classification of local self-government budget expenditures, specifically codes 510–560, which are dedicated precisely to this sector. If the same approach were to be applied to the 2025 data, total spending at the local government level would stand at RSD 32.8 billion, representing a 7.3% rise compared to 2024 – which reflects the actual measure of the annual shift.

However, this time, all expenditures across 168 LSGs were covered, totaling over 81,000 individual line items. Functional codes were cross-checked against program activity names and the program classification to identify all expenditures associated with the sector, irrespective of where they were recorded. The final result is the identification of additional expenditures amounting to approximately RSD 20 billion, which LSGs recorded under different functional codes, even though they essentially belong to environmental spending.

An equally important finding is the confirmed presence of serious inconsistencies in the way LSGs record these expenditures. For instance, the maintenance of public green areas was recorded under as many as nine different functional codes, while animal hygiene services were recorded under as many as eleven, including codes designated for general public services and veterinary services. On the other hand, energy management expenditures, totaling RSD 1.8 billion, were not included at all under the codes intended for environmental protection, even though in a large number of cases these involve energy efficiency improvement programs, which are classified as expenditures for the energy and climate transition.

Evident inconsistency in the recording of expenditures makes it difficult to monitor and review these allocations at the national level. Namely, in order to reliably determine local government expenditures, more than 81,000 individual budget items had to be manually searched and cross-checked across three different classifications. This goes beyond the scope of regular annual monitoring and is not something the interested public could routinely replicate. This analysis highlights the importance of the recommendation in the previous Coalition 27 report regarding the need to consistently introduce and apply the functional classification of budget expenditures at both the national and local levels of government. Otherwise, an accurate insight into total government spending on environmental protection will remain inaccessible to the public – and, consequently, the ability to reliably track these allocations on a year-to-year basis.

Water management and protection remains by far the largest single area within national expenditures for environmental protection. In 2025, this sector accounted for RSD 30.5 billion, or 55.6% of total funding, representing a RSD 6.3 billion increase compared to the previous year. This growth stems almost entirely from two projects – Clean Serbia, under which the construction of the sewerage infrastructure is financed with RSD 14.6 billion, and the river training and protection against harmful effects of water by the Republic Water Directorate with RSD 10.6 billion – both of which experienced substantial budget overruns. It is important, however, to keep in mind that the latter project primarily focuses on flood defense, i.e., climate change adaptation, rather than water pollution control in the strict sense. Due to the dominant share of these projects, as much as 88.6% of total funding relates to capital expenditures – the highest share across all sectors. A similar trend, with flood defense prevailing over pollution control, also characterizes the local government level, where RSD 12.7 billion were spent in this category, with nearly two-thirds (RSD 8.2 billion) going toward river training.

The 2026 budget projects continued growth in spending, albeit at a more moderate pace, reaching RSD 32.9 billion, which is 7.8% higher than the previous year. This represents the slowest planned growth across all sectors, which would reduce sector's share for the first time, to 53.1%. At the same

time, funding for the Clean Serbia project has been nearly halved to RSD 8 billion, while RSD 7 billion has been allocated for the Republic Water Directorate project. A special case is the Central Sewer System of the City of Belgrade, which has faced implementation challenges for years. In 2024, after the initial allocation of RSD 3 billion was reduced to RSD 1 billion through a budget revision, the execution amounted to zero dinars, while in 2025, out of the planned RSD 5 billion, only RSD 166 million, or 3.3 % of the budget, was spent. Although a substantial RSD 2 billion has again been budgeted for 2026, the accompanying budget documentation fails to clarify whether the hurdles that caused low execution in previous years have been resolved.

Waste management is the second-largest expenditure sector for environmental protection at the national level. In 2025, RSD 12.7 billion was spent, accounting for 23.2% of all funds, which is one billion dinars more than the previous year. The largest individual expenditures went toward incentives for waste reuse and recovery, namely the recycling industry (RSD 3.4 billion), the construction of regional waste management centers (RSD 3 billion, exceeding the budgeted amount by 37%) and the remediation and closure of non-sanitary landfills (RSD 1.3 billion). The sector, however, was also characterized by an example of unused EU funds: out of RSD 1.7 billion planned for establishing a regional waste management system in Novi Sad and six surrounding municipalities, not a single dinar was spent in 2025. At the local government level, waste management is the largest individual sector, accounting for RSD 15 billion. Together, Belgrade and Novi Sad make up nearly 26% of these expenditures (RSD 2.7 billion and RSD 1.2 billion, respectively), but with a vastly different structure: only 6.7% goes toward capital expenditures, while regular cleaning of public areas accounts for nearly half of the funds, totaling RSD 7 billion. The amounts spent on the remediation and removal of illegal dumpsites at the local level (RSD 1.8 billion) roughly match the funds transferred for this purpose to local self-government units by the Ministry of Environmental Protection (RSD 1.9 billion) – suggesting that local governments largely finance dumpsite remediation through national-level funds.

The 2026 budget projects an increase in expenditures to RSD 14.9 billion, which is 16.7% higher than in the previous year – marking a faster growth rate than

the average across all sectors. Allocations for the construction of regional waste management centers are set to rise to RSD 3.2 billion, while planned incentives for the recycling industry are being reduced for the third consecutive year, this time to RSD 2.9 billion. Hence, the trend of budget reallocation from subsidies toward direct investments in waste management infrastructure continues, as was also outlined in the previous report.

Climate change was one of only two sectors in which spending declined in 2025, amounting to RSD 4.7 billion, or 8.6% of all funds – falling below one-tenth of total spending for the first time and decreasing by RSD 1.2 billion compared to 2024. Furthermore, the sector is financed by three institutions in a highly uneven manner: the Republic Hydrometeorological Service, with RSD 2.4 billion, primarily for the hail defense system and the regular meteorological observing system; the Ministry of Mining and Energy, with RSD 2.2 billion for energy efficiency measures and renewable energy sources, including the construction of self-balanced solar power plants with a total capacity of 1GW and battery storage systems (RSD 413 million); and the Ministry of Environmental Protection, with a mere RSD 140 million for reporting under the Paris Agreement and urban low-carbon transition projects. It should be noted that more than half of the funding in this sector is allocated to regular meteorological services, whereas merely a symbolic portion – coming from the Ministry of Environmental Protection's budget – goes toward climate policy in the strict sense. At the local government level, RSD 4.4 billion was expended on climate change, led by the Autonomous Province of Vojvodina (RSD 1 billion) and Belgrade (RSD 641 million). With a quarter of its funding coming from transfers and 11% from European Union funds, this sector is the most heavily dependent on external financing sources.

The 2026 budget projects the highest percentage increase across all sectors – rising to RSD 6.6 billion, or 40% more than in the previous year, which would bring the share of climate change expenditures in total spending back to above 10%. The growth stems almost entirely from the Ministry of Mining and Energy, whose budget for this sector is being increased by nearly two-thirds, mainly through programs promoting the development of the biomass market (RSD 540 million) and energy efficiency for central government buildings

(RSD 580 million). In contrast, the budgeted expenditures of the Republic Hydrometeorological Service are higher by only 7%, maintaining the same structure as in previous years.

In 2025, a total of RSD 1.5 billion – or just 2.8% of all environmental protection funds –was spent for air protection. This marks the lowest share since these figures have been tracked, and a RSD 1.2 billion drop compared to 2024. The largest part of the decline stems from a single project: IPA 2025 Energy Efficiency and Air Quality. Despite a planned budget of RSD 860 million, no payments whatsoever were made – mirroring the same pattern of unutilized EU funds seen across the overall environmental protection budget. For other projects, the budget execution was more favorable: RSD 523 million were spent on the procurement, replacement, and refurbishment of boiler rooms for heating (exceeding the budgeted amount by 49%), and RSD 453 million for incentives to purchase eco-friendly vehicles (exceeding the budgeted amount by 166%). In contrast, only RSD 42 million was spent on the district heating project in Kragujevac, out of the budgeted RSD 200 million. At the local government level, expenditures for air quality amounted to RSD 1.9 billion; however, budget data reveal that only 37 out of 168 local self-government units have a specific line item for this purpose,[8] which is less than a quarter of the cities and municipalities in Serbia. Nearly half of these funds, amounting to RSD 818 million, relates to a single city – Bor.

The 2026 budget projects an increase to RSD 1.9 billion, which is 26% more than in the previous year, which would bring share back to the 2024 level. The largest allocated item is a new Serbia Air Quality Improvement project, budgeted at RSD 670 million, while the IPA project, following a complete lack of implementation in 2025, has been allocated a smaller amount of RSD 289 million.

In 2025, approximately RSD 1.4 billion was spent from the national budget for nature and biodiversity protection, accounting for 2.6% of all environmental

8 This refers to the number of local self-government units with a dedicated budget line for air quality; however, it cannot be ruled out that some local self-government units finance air pollution reduction measures under broader program activities, making it impossible to separate these funds from other allocations. For comparison, 146 local self-government units have a dedicated budget line for waste management, 133 for climate change, and 55 for nature protection.

protection expenditures. Although this marks an increase of RSD 240 million compared to the previous year, nature protection continues to be among the least-funded sectors – with only chemical management and forestry receiving fewer resources. The entire funding originates from the line ministry's budget, distributed almost exclusively across four key activities: incentives for programs for the management of protected natural areas (RSD 525 million), the arrangement and improvement of nature protection and biodiversity conservation (RSD 452 million), operational support for the Institute for Nature Conservation of Serbia (RSD 315 million) and afforestation aimed at protecting landscape diversity (RSD 147 million). Two minor budgeted projects – incentives for local self-governments to establish geoparks and preserve soil as a natural resource – were not implemented at all in 2025. At the local government level, approximately RSD 1.4 billion was spent, led by Belgrade (RSD 354 million) and the Autonomous Province of Vojvodina (RSD 274 million), with as much as 89% spending recorded under the generic activity of "nature protection", which also includes employee salaries, operational costs, and subsidies to public enterprises. For activities that are unambiguously linked to nature, such as the management of protected areas, afforestation, and soil preservation, a mere RSD 94 million was spent, representing only 7% of the total expenditures of local self-government units in this field.

The 2026 budget projects a 30% increase to RSD 1.9 billion, marking the highest percentage growth after climate change, albeit from a low baseline. While budgeted expenditures are rising across all existing activities, a new, minor line item of RSD 3 million has been introduced for forest management in the buffer zone of a protected natural area. The allocation for soil preservation remains unchanged at RSD 66 million, despite no expenditure being recorded in 2025 – which brings into question the reality of the plan.

In 2025, forestry was funded with RSD 850 million (1.6%), almost entirely through the Forestry Administration's Sustainable Development and Improvement of Forestry program (RSD 668 million). At the local government level, this area was funded only by the Autonomous Province of Vojvodina, with RSD 339 million. Expenditures for horizontal activities – administration, inspection and monitoring – totaled RSD 2.7 billion (4.8%), with the increase compared

to the previous year being almost entirely the result of payments pursuant to court decisions under the budget of the Ministry of Environmental Protection, incurred due to a dispute with private companies over unpaid incentives for the recycling industry dating prior to 2020.[9] In contrast, expenditures for both the Environmental Protection Inspectorate and the Environmental Protection Agency fell short of the budgeted amounts.

The management of chemicals and biocidal products remains by far the least funded sector, with only RSD 46 million in 2025, which is 0.1% of all environmental protection expenditures. The largest part, RSD 39 million, relates to the regular activity of chemical management system regulation, while the implementation of the UNEP-supported Further Strengthening of National Capacities for Risk Management of Hazardous Substances Throughout Their Life Cycle project (RSD 6.8 million) also continued, which, in accordance with the original plan, no longer appears in the 2026 budget. The 2026 budget projects a rise in expenditures to RSD 58 million. Despite this increase, the system remains fundamentally unchanged: although the European Union's REACH and Biocidal Products Regulation (BPR) stipulate that the costs related to regulatory procedures must be borne by economic operators generating income from chemicals and biocidal products, the 2021 Law on Biocidal Products failed to incorporate such a fee system. As a result, administrative expenses continue to be financed from general budget revenues rather than through earmarked funds provided by those who place these products on the market.

Unlike other areas, protection against noise and vibration lacks a dedicated budget line at the national level, whereas at the local level, it is tracked under the Noise Control and Protection subsection within the environmental protection budget fund programs – mostly in cities legally required to draft strategic noise maps or conduct regular monitoring. Budgeted expenditure is also unevenly distributed: for 2025, the City of Belgrade allocated RSD 78 million for strategic noise mapping, alongside another RSD 12 to RSD 15 million for regular annual community noise monitoring. Other cities budgeted smaller amounts – Novi Sad budgeted six to eight million dinars for the noise level

9 Following a five-year dispute, the Commercial Court in Belgrade ruled in favor of four companies that sued the Ministry back in 2020, with claims exceeding RSD 1.19 billion. See, inter alia: N1 info, Forbes Serbia, BBC News in Serbian, and reports from the period January–July 2026.

measurement program and for equipping inspectors with phonometers; Niš around RSD 2.3 million for monitoring and drafting an action plan; Zrenjanin RSD 2.2 million for a contract with the Institute of Public Health; while Valjevo allocated a mere RSD 264 thousand. In the majority of smaller local self-government units – such as Kraljevo, Loznica, Užice, Sombor, Šabac and others – either no funds were budgeted under this specific subsection, or the noise monitoring was merged into a joint procurement for overall environmental monitoring, making it impossible to isolate the exact expenditure. In total, the identifiable planned expenditures for protection against noise and vibration in 2025 amount to approximately RSD 100 million across all local self-governments in Serbia.

Legislative framework

Systemic Financing Framework

The legal framework governing environmental protection financing has essentially remained unchanged compared to the previous report: the Law on Environmental Protection[10] (Article 89) defines the sources of financing, which include funds from the budgets of all levels of government and international financial assistance, while explicitly establishing the polluter pays principle. The law also provides for the establishment of the Green Fund of the Republic of Serbia as a budgetary fund for financing environmental activities (Arts. 90–90v); however, its sources are not specifically tied to revenues from pollution fees, but are instead reduced to regular annual budget appropriations, donations, loans and other public revenues. In practice, the previous report's assessment still holds true - that the Green Fund is an example of institutional atrophy: although it was established back in 2016, the 2018 amendments to the Law on Environmental Protection further specified that these funds should be allocated through public calls for applications, the Green Fund has never

10 Official Gazette of RS, nos. 135/2004, 36/2009, 36/2009 – as amended, 72/2009 – as amended, 43/2011 – decision of the Constitutional Court, 14/2016, 76/2018, 95/2018 – as amended, 95/2018 – as amended and 94/2024 – as amended.

acquired the earmarked funding arrangements that the former Environmental Protection Fund had before it was abolished in 2012. The law was amended in December 2024,[11] but solely in the section relating to chemical accident control; this subject matter has now been separated into a distinct piece of legislation. The provisions governing financing and the Green Fund remained completely unchanged. Ten years after the establishment of the Green Fund, Serbia still lacks an institutional mechanism for the earmarked spending of funds collected through various environmental taxes and fees.

An attempt to regulate the system for collecting environmental taxes and fees in a unified manner was made through the Law on Fees for the Use of Public Goods,[12] passed in late 2018. However, a more detailed analysis of the distribution of collected revenues reveals a fragmentation that deviates from the idea that the polluter should pay "at the source". Thus, the municipality hosting a thermal power plant receives only 40% of the revenue from sulfur dioxide and nitrogen oxide emission fees, while revenues from fees for special waste streams (tires, batteries, oils, electrical and electronic waste) are entirely allocated to the national budget, regardless of where the waste was actually generated. The most widespread 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 its actual pollution levels. In practice, this implies that a large IT company may pay a substantially higher fee than a small business which is the actual polluter. Such a system makes it difficult for local self-governments to independently finance the resolution of their own environmental issues, rendering them dependent on transfers from the national budget. Since 2023, the Law has been amended three times – at the end of 2023, in December 2025, and in April 2026 – but all three amendments remain within the scope of expanding the tax base and broadening the number of exemptions, rather than a substantive reform of revenue distribution: for instance, the special waste stream fee now applies to motor vehicles, whereas associations, religious communities, and protected area managers are now exempt from the eco-tax. Ultimately, none of these amendments alter the fact

11 The Law governing control of chemical accident hazards, which simultaneously amended the Law on Environmental Protection by deleting Arts. 58–63.

12 Official Gazette of RS, nos. 95/2018, 49/2019, 92/2023, 109/2025 and 35/2026.

that the collected funds continue to serve as general budget revenue, rather than earmarked funding dedicated to environmental protection.

A three-week gap between two regulatory decisions illustrates this problem well. Following amendments to the Law on Fees for the Use of Public Goods of December 4, 2025, the special waste streams fee was extended to motor vehicles, broadening thereby the scope of fee collection. Already on December 26 of the same year, the Government passed a regulation repealing the regulation on the allocation of incentive funds to operators of special waste streams, effective as of January 1, 2026. For nearly fifteen years, the old model reimbursed licensed operators for a portion of the costs associated with collecting and treating waste whose processing cannot be financed solely through the sale of separated secondary raw materials – particularly waste tires, electrical and electronic waste, batteries and accumulators, which require special treatment. The government explained the abolition on the grounds of harmonization with the European Union state aid rules; the industry, on the other hand, argued that the system should be based on the principle of extended producer responsibility, rather than discretionary state aid contingent upon the annual budget. The key oversight was in the transitional phase: the old instrument was abolished before the new framework became operational, creating a regulatory and financial vacuum. The consequences were swift and measurable: licensed recyclers largely suspended or drastically limited the collection of waste tires, electronic waste, and accumulators; it is estimated that about 70,000 tons of special waste streams were not collected in the first six months of 2026, compared to an annual capacity of 120,000 to 130,000 tons.[13] During the same period, approximately two-thirds of the workforce employed by the operators of these waste streams was laid off, while the environmental risk increased due to prolonged and inadequate storage of tires and hazardous electronic waste components.[14]

Industry representatives publicly challenged the newly proposed model. The abolition of the system was described as the disruption of a mechanism that,

13 Available at: https://forbes.n1info.rs/biznis/industrije/vulkanizeri-prepuni-starih-guma-nicu-nove-deponije-zbog-drzave-otpusteno-dve-trecine-zaposlenih-kod-operatera-otpada/

14 See, inter alia: N1 info, Forbes Serbia, BBC News in Serbian, Vreme, Ozon Press, Južne vesti, Biznis.rs, and reports from the period January–July 2026.

despite its shortcomings, represented an important pillar of the sector's financial sustainability. Recyclers were not necessarily seeking a return to the old model, but rather a stable, predictable and earmarked source of funding – arguing that polluters and consumers already pay a fee embedded in the product price; therefore, those funds should be directed toward actual collection and treatment of waste, instead of remaining non-earmarked general budget revenue. Industry representatives walked out of the meeting with the Ministry on March 6, 2026, dissatisfied with the draft of the new regulation. They specifically objected to treating incentives as state aid and implementing the proposed auctioning model, which would require operators to offer the lowest treatment cost per unit of waste mass – a solution that, according to experts, favors the lowest price rather than treatment safety and quality. The new regulation for the 2026–2028 period has been prepared, but the problem remained largely unaddressed throughout most of 2026. It involves the same flaw previously described with the Green Fund and the eco-tax – the absence of dedicated, predictable funding – with the distinction that this situation causes immediate and visible harm: job losses, untreated waste, and heightened environmental risks.

The European Commission's assessments follow the same pattern described in the previous report – a set of recommendations repeated year after year with the qualification that they have been "partially implemented". The report published on November 4, 2025,[15] which is included in this year's overview for the first time, confirms that continuity while introducing two novelties important for financing. In contrast to previous reports, the recommendation to operationalize the Green Fund is not explicitly mentioned this time. Instead, the Commission called for the adoption of the environmental protection strategy, which took place nine months later, and the introduction of an extended producer responsibility system for special waste streams, "in accordance with the polluter pays principle" – a requirement that almost word-for-word echoes the argument put forward by the recycling industry during its dispute with the Ministry. For the first time, the Commission is calling also for the introduction of a national carbon pricing mechanism and alignment with the EU

15 European Commission, Serbia 2025 Report, Commission Staff Working Document, SWD(2025) 755 final, Brussels, 4. 11. 2025, available at: https://enlargement.ec.europa.eu/document/download/6e-68ce26-b95b-48e1-921a-c60c12da8f00_en?filename=serbia-report-2025.pdf

Emissions Trading System – which Serbia, as detailed further in the following section, partially addressed through a law adopted in late 2025. The report also includes observations outside of Chapter 27 relevant to the issue of financing: namely, that the current budget contingency reserve is being used without a clearly defined purpose and transparent reporting, and that Serbia continues to award major infrastructure contracts non-transparently, often through intergovernmental agreements or special laws (lex specialis).

After several postponements, the Strategy was adopted on July 30, 2026[16] – with a delay of at least seven months compared to the deadlines set in its own draft, given that key activities in the field of financing, Analysis of Sustainable Financing Instruments, and the Definition of Institutional and Legal Framework, were scheduled to be completed by the end of 2025. The adopted text retains the essence of that measure, now designated as Measure 6.4.1 Reforming Environmental Protection Financing Instruments, which provides for the analysis of sustainable financing instruments, including fees, defining the institutional, legal, and organizational framework, and introducing a binding green budgeting methodology. It is particularly significant that the measure in the strategic document explicitly states the "earmarked use of funds collected from environmental taxes and fees" as a goal – which is precisely what this report has been identifying for years as the missing link in the system. The text of the Strategy itself, however, no longer outlines specific timeframes for implementing this measure. The scale of the challenge is further demonstrated by the estimate of the total costs of implementing the Strategy through 2033, estimated at EUR 27.23 billion. For the decarbonization and climate sector – which accounts for 70% of this amount – only 4% to 6% of the expenditures are expected to be financed directly from budget resources.

The second green budgeting cycle, conducted for 2026, shows that the methodology has remained virtually unchanged. Annex 1a of the 2026 Budget Law[17] includes 66 projects totaling RSD 124.2 billion, slightly higher than the 64

16 Environmental Protection Strategy of the Republic of Serbia until 2033 – Green Agenda for Serbia, published in the Official Gazette of RS, no. 71/2026, available at: https://www.eupropisi.com/dokumenti/SG_071_2026_005.docx

17 Annex 1a of the 2025 and 2026 Budget Law of the Republic of Serbia, Ministry of Finance – List of Green Projects.

projects and RSD 118.5 billion recorded in 2025. In terms of objectives, there is a stronger focus on climate change mitigation, which saw its share grow from 56.7% to 62.4%, while the shares of pollution prevention and control and climate change adaptation declined. The focus on three infrastructure mega-aprojects – the construction of the Belgrade subway and two railway lines (the Hungarian-Serbian railway and the Niš–Dimitrovgrad line) – continues to be the largest individual source of this imbalance. Their combined share, along with two smaller projects of the same type, increased from 53.1% to 59.1% of the total amount. The largest single driver of this shift is the construction of the subway, the allocation for which more than doubled in this Annex. All five infrastructure projects were marked as compliant with the DNSH (do no significant harm) principle, without any analysis of potential adverse side effects – which confirms last year's assessment that the counterfactual criterion in green tagging is applied rather straightforwardly. In other words, even though green budgeting methodology has since been made mandatory under the Environmental Protection Strategy itself, its application remains unchanged: a broad scope of infrastructure investments tagged as "green", accompanied by a negligible share of projects addressing biodiversity and water resources.

Finally, mention should be made of the Draft Law on Integrated Prevention and Control of the Environment Pollution, submitted for public consultation in March 2026, which further aligns national legislation with the EU IPPC Directive. While not directly related to financing, its implementation, through issuing integrated permits and strengthening inspection supervision over industrial polluters, will depend on the very administrative capacities that the European Commission has for years emphasized as a prerequisite for the functioning of the entire system.

CBAM and Domestic Carbon Tax

The response of the Republic of Serbia to the start of the CBAM implementation was formalized in late 2025 through the adoption of two laws described in the Fiscal Strategy as "preparation for CBAM" – the Law on Greenhouse Gas Emissions Tax and the Law on Carbon-Intensive Products Import Tax, both

effective as of January 1, 2026. The first law introduces an emissions tax for five sectors, namely the production of fertilizers, cement, pig iron and steel, aluminum, and electricity – at a rate of four euros per ton of CO2 equivalent, calculated on emissions exceeding the "reference emission" level, i.e., the technological minimum for a given production process. The second law introduces the same rate on the import of carbon-intensive products to level the playing field between domestic and imported goods. Electricity producers whose primary activity is power generation are entitled to a tax credit of up to 20% of their investments in emission reduction measures, capped at 80% of their total tax liability; the types of approved measures are prescribed by a special regulation,[18] and restricted to renewable energy sources, energy storage, and the closure of thermal power capacities. Taxpayers may also qualify for incentives from a dedicated budget line for climate and energy transition; the terms, criteria, and allocation methods for these incentives are prescribed by the Regulation on the Conditions, Criteria, and Procedure for Allocating Decarbonization Incentive Funds and the Deadlines and Method of Reporting on the Use of Those Funds (Official Gazette of RS, no. 51/2026), with a maximum amount of up to EUR 200 million per individual measure (Article 3). Although the laws have been in effect since January 2026, the first tax collection is not expected until 2027, as the deadline for filing the tax return is May 31 of the following year.

The Fiscal Strategy for the 2027–2029 period provided the first official assessment of the CBAM's impact on the Serbian economy.[19] According to data provided therein, more than 12% of Serbia's exports to the European Union, or over 8% of its total exports, fall within the scope of this mechanism.[20] Assuming the CBAM certificate price of EUR 75.36 per metric ton of CO2 equivalent, the overall impact of the mechanism is estimated at around EUR 140 million in 2026, rising to approximately EUR 161 million by 2029; under an alternative scenario, which assumes that the EU fully recognizes the domestic carbon

18 Regulation on the Types of Measures and the Method of Reporting on Implemented Measures for Reducing Carbon Dioxide Equivalent Emissions, Official Gazette of RS, no. 51/2026.

19 Fiscal Strategy for 2027 with Projections for 2028 and 2029, Annex 5 – Preliminary Assessment of the Effects of the Carbon Border Adjustment Mechanism (CBAM) on the Republic of Serbia, Ministry of Finance.

20 Within the Serbian economy, there are more than 3,500 companies directly or indirectly linked to the CBAM sectors, employing around 4.5% of the total workforce; of these, around 1,000 companies exported to the EU in 2025 and are potentially directly exposed to CBAM-related obligations.

price, the effect would be somewhat lower, ranging between EUR 127 million and EUR 148 million. The impact across sectors is starkly uneven: cement prices could surge by up to 71% by 2029, the increase in the price of electricity remains fixed at around 47% from the onset of application, while iron and steel, despite making the largest absolute contribution to the overall impact, face a price increase of 7 % to 11%. The direct effect on GDP in 2026 is estimated at 0.16%. On the other hand, total revenues from both domestic carbon taxes are estimated to range from just EUR 41 million to EUR 145 million in 2026 – collectible only in the subsequent year, whereas the liability of Serbian exporters would be reduced by only around EUR 12 million per annum, should the EU recognize this domestic carbon price.

In its opinion on the Draft Fiscal Strategy,[21] the Fiscal Council assessed that the presented carbon tax revenue projections are "indicative" and, given the wide range of possible parameters, were justifiably omitted from the official medium-term fiscal plan. However, the Council warns that there is no clear strategic commitment regarding the trajectory of the tax rate in the coming years – it was introduced at four euros per ton, with no indication of its medium- and long-term path, which undermines predictability for businesses. The Council illustrates the scale of the broader energy transition challenge with a striking figure: in 2024, all public-sector entities in the energy sector jointly invested just over EUR 1.1 billion, whereas meeting the targets of the Integrated National Energy and Climate Plan for the 2025–2030 period would require annual investments of at least EUR 3–3.5 billion from the public sector alone. According to the Council's estimates, the public sector is expected to cover 60–85% of the total of nearly EUR 30 billion in required investments by 2030. Furthermore, state guarantees for a portion of those projects, amounting to roughly EUR 3.5 billion, have not been factored into medium-term fiscal projections.

The Council also raised a serious methodological objection regarding the calculation of CBAM effects in the Strategy itself: it remains unclear whether the "CBAM effect" refers to the cost of purchasing certificates, lost export revenues due to reduced competitiveness, or some other indicator; moreover,

21 Fiscal Council of the Republic of Serbia, Opinion on the Draft Fiscal Strategy for the 2027–2029 Period.

industrial products and electricity were treated almost identically, even though these are fundamentally different cases. In the case of industrial products, where domestic emissions are 15–20% higher than the EU average, CBAM diminishes price competitiveness but will not completely push exporters out of the market; therefore, it is justified to measure the effect as the additional cost of certificates; for electricity, however, where domestic emissions are three to four times higher than the EU average, CBAM practically calls into question the profitability of exports, meaning the impact should be measured in terms of lost revenue. The Council further cautions that the estimated impact on industrial sectors of EUR 118 million vastly exceeds their earlier estimate of EUR 45 to 50 million, noting that the European Commission's updated benchmarks only partially explain this discrepancy, urging the Government to publicly disclose the assumptions behind these calculations.

According to an analysis by the Platform for Social Development and Innovation (CORE) the law was drafted in the absence of a publicly accessible analytical basis and with limited public involvement:[22] the 2023 working group, formed to evaluate the impact of CBAM, had no bearing on the actual legislative text, which, according to a written response from the Ministry of Finance, was prepared by an unidentified author, without a working group and without any official minutes. The public consultation lasted 20 days, which is the statutory minimum, while the rate of four euros per ton was determined without any published methodology. The Ministry initially claimed the figure was taken from the NECP, but later retracted this statement, making reference to a "special analysis" that has never been made public. The analysis points out that the law fails to guarantee the earmarked use of collected funds: in response to a proposal by the Chamber of Commerce and Industry of Serbia to establish a special fund, the Ministry of Finance replied in writing that "there is no formal legal basis for using tax revenues in this specific manner", thereby deviating from its own strategic documents – the NECP and the Energy Development Strategy, which provide for the earmarking of these funds. Furthermore, the tax credit is reserved exclusively for electricity producers,

22 Vojvodić, H., Popović, M., Vukčević, Lj., Milićević, I., Privid dekarbonizacije: Analiza Zakona o porezu na emisije gasova sa efektom staklene bašte, Platforma za društveni razvoj i inovacije – CORE, Beograd, 2026.

with no further explanation provided other than invoking "strategic reasons". The tax on greenhouse gas emissions confirms the pattern observed with the Green Fund and current environmental fees: revenues are introduced or collected without a legal mechanism for their earmarking for decarbonization and environmental protection. This discrepancy is particularly noticeable in relation to the Environmental Protection Strategy, where Measure 6.4.1 explicitly provides for the earmarked use of revenues from environmental taxes and fees. Consequently, aligning the tax and strategic frameworks remains one of the key prerequisites for the sustainable financing of the green transition.

Recommendations

1. Operationalize the Green Fund of the Republic of Serbia and amend the Law on Environmental Protection, the Law on Fees for the Use of Public Goods, and the Law on Greenhouse Gas Emissions Tax, ensuring that revenues from environmental fees and emission taxes are earmarked for environmental protection, decarbonization, and climate change adaptation.
2. Reform the distribution of environmental fee revenues to align more closely with the location where environmental pressures arise, ensuring that local self-governments are provided with predictable funding for pollution prevention, control, and remediation.
3. Establish a transparent medium-term framework for the greenhouse gas emissions tax, including the path of the tax rate, criteria for tax incentives, and a revenue utilization model for financing decarbonization.
4. Enhance the institutional capacity to prepare, contract, implement, and monitor environmental and climate projects, with particular emphasis on increasing the absorption of European Union funds and implementing major infrastructure investments.
5. Improve multi-year budgetary planning by aligning allocations with assessed project readiness, realistic implementation capabilities, and the removal of obstacles in projects with recurrent budget execution shortfalls.
6. Ensure full transparency of major infrastructure projects, including publicly available data on funding sources, contracts, implementation schedules and progress, payments made, contract amendments, expected outcomes, and reasons for any deviations from the plan.

7. Ensure the consistent application of the functional classification of budget expenditures across the national, provincial, and local levels of government, and establish a methodologically uniform framework for reporting on planned and executed expenditures for environmental protection and climate change.

8. Improve the green budgeting methodology through more precise expenditure tagging criteria, more reliable verification of compliance with the DNSH principle, and by expanding the coverage of relevant users of public funds.

9. Guarantee continuity when abolishing or reforming incentives and other financial instruments in the field of environmental protection, ensuring that existing mechanisms remain in force until the new system is fully operational from a legal, institutional, and financial standpoint.

10. Establish an effective system of extended producer responsibility for special waste streams, with a stable and predictable financing mechanism for collection, treatment, and recycling, in line with the polluter pays principle.

FINANCING IN THE FIELD OF ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE

NATIONAL BUDGET EXPENDITURES FOR ENVIRONMENTAL PROTECTION IN 2025



1 RECORD BUDGET SPENDING

National budget expenditures for environmental protection reached a record **RSD 54.85 billion** in 2025 (over 0.5% of GDP), while the 2026 budget projects further growth to nearly **RSD 62 billion**.

2 FOCUS ON WATER AND WASTE

Nearly **79%** of environmental protection expenditures in 2025 were directed toward the water and waste management sectors. The Clean Serbia project remained the largest individual project, with **RSD 14.6 billion** in expenditures.

3 LOW ABSORPTION OF EU FUNDS

The absorption of EU funds continued to deteriorate, with only **26%** of the budgeted amount spent in 2025.

4 CHALLENGES IN THE RECYCLING SECTOR

The abolition of recycling incentives before a replacement system was operational left approximately **70,000 tons** of waste uncollected in the first half of 2026, resulting in job losses in the sector and increased environmental risks.

5 GREENHOUSE GAS EMISSIONS TAX

Serbia introduced a greenhouse gas emissions tax in response to CBAM, but without guarantees that the revenues collected would be earmarked for environmental protection and decarbonization.