

## Institutional Profile of the Environment Protection Fund, Serbia

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### 1. Basic information

Country:	Serbia
Official name or designation of the institution:	Environment Protection Fund
Website and mailing address of the institution:	<a href="http://www.sepf.sr.gov.yu">www.sepf.sr.gov.yu</a> Nemanjina 22-26, 11000 Belgrade, Serbia
Project application documentation is available from:	<a href="http://www.sepf.sr.gov.yu">www.sepf.sr.gov.yu</a>
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### 2. Background and Objectives of the Institution

Despite the impressive economic growth at an average rate of 7% a year for the last couple of years in Serbia, the current level of environment expenditures is dwarfed by the magnitude of the environmental problems to be addressed and the considerable investments required for improving and extending the environmental infrastructure. An important step forward in this direction was the establishment of the Environmental Protection Fund (EPF). According to the Draft of National Environmental Strategy (NES) an estimated amount of EUR 4 billion will be needed to meet Serbia's environmental policy objectives in the period 2006 - 2015. These objectives largely correspond to achieving EU environmental standards. According to the draft Serbian National Environmental Strategy, all environmental revenues should be used as earmarked funds for investment in the protection and improvement of the environment.

The EPF was established and registered according to Art 90 of the Environment Protection Law (EPL) ("Official Gazette" of the Republic of Serbia, No. 135/2004). The EPF has been operational since May 2005, with the Ministry of Finance providing initial funding. The Fund is an independent legal entity, and its general mandate is to finance environmental protection projects as well as projects promoting energy efficiency and use of renewable energy sources. According to the EPF Statute adopted 20 July 2007, the EPF has a status of legal entity which acts according to the law regulating the budgetary system (for more details on the Law on Budgetary System see [www.mfin.sr.gov.yu](http://www.mfin.sr.gov.yu)). According to the EPL, the scope of work of EPF is as follows:

1. Finances development and implementation of programs and projects and other activities in the area of protection, sustainable use of natural resources and environment protection;
2. Finances, conducts and develops programs, projects and activities in the area of energy efficiency and use of renewable energy sources;
3. Performs expertise and other activities related with acquiring, managing and use of funds;

4. Acts as a mediator in environment financing and energy efficiency from the sources of foreign governments, international organizations, financial institutions and bodies, as well as with domestic and foreign legal and physical entities;
5. Implements databases on programs, projects and other activities in the area of environment protection and energy efficiency as well as necessary and available financial sources for its realization;
6. Supports, performs and realizes international cooperation with financial institutions and other legal and physical entities in order to finance environment protection and energy efficiency in accordance with the NEAP and other strategic programs and plans, as well as ratified international agreements for designated purposes;
7. Other activities in accordance with the EPL.

### **3. Management and Administration**

Management and administration of the EPF is determined by the Fund Statute. The Managing Board of the EPF on its session of 20 July 2007 has adopted the EPF Statute. The EPF Statute regulates:

- The mission of the EPF;
- Basic organizational matters;
- Operational procedures of the EPF;
- Requirements to be met by the prospective EPF Director;
- Additional issues related to work of the EPF.

The main management bodies include the Management Board, the Supervisory Board and the Fund Director.

The Management Board (MB) has a president and six members. Members of the MB currently include three Government representatives and one representative each of: the central bank, the autonomous province, the local self-governments and the Fund. The responsibilities of the MB include:

- Adopts the EPF Statutes, and, if necessary prepares amendments to the Statutes, which are then submitted to the government for approval;
- Is responsible for elaborating a medium term plan of work of EPF, which is then sent for governmental approval;
- Is responsible for elaborating the yearly program of work of the EPF, which is sent for approval by the Ministry of Environment Protection;
- Decides on the approval of the financial plan;
- Decides and adopts the EPF business report;
- Approves the guidebook on the work of the EPF;
- Approves the rulebook on the inner organization and job descriptions in the EPF;
- Decides on opening bank accounts;
- Decides on free financial sources of the EPF;
- Decides on financing of concrete projects in accordance with relevant policy, such as the National Environmental Action Program (NEAP);
- Guides the work of the Fund Director.

The Supervisory Board (SB) has a president and four members. Members of the SB currently include two representatives of the Government and one representative each of the autonomous province, the local self-

governments and the Fund. The SB reviews final balances and business reports and determines whether these reports are in accordance with relevant regulations. In addition, the SB adopts the rulebook on the work of the EPF, performs revisions on the legality of the work of MB and Fund Director, revises business reports and accounting books of the EPF, and, performs other activities according to the law and statutory provisions.

Both the MB and SB are appointed by the Government of the Republic of Serbia for a four-year period.

The Director of the EPF is nominated by the Government of the Republic of Serbia, based on the proposal of the Minister of Environment Protection. The Fund Director is appointed for a four-year period. The Director represents the EPF, organizes and manages the work of EPF, decides on Funds activities (apart from relevant decisions of the MB), proposes acts to be adopted by the MB, is responsible for the legality of the EPF work, and ensures expertise in the work of the EPF. In addition, the Fund Director implements decisions of the MB, adopts the Rulebook on the inner organization and job descriptions at EPF, decides on rights, responsibilities of employees, proposes the program of work of the EPF, and performs other relevant activities.

Fund expenditures are planned in cooperation with and have to be adopted by the Ministry of Environment Protection (MEP). In addition, the EPF is obliged to elaborate yearly and medium term work programs, whereas yearly work programs need to be approved by the Ministry of Environmental Protection and medium term work programs need to be approved by the Government. The Fund must submit an annual report to the MEP, and it must inform the public about its activities.

The following internal departments of the EPF are currently established: a planning department, a development and project selection department, an intermediation department, a realization and monitoring of financial projects department, and, a legal, economics and administrative affairs department. The Fund's human resources are financed from the state budget. The EPF had 12 staff in 2006.

#### **4. Revenues**

Revenue sources of the EPF are determined by the Environment Protection Law as follows:

- Earmarked funds of the state budget realized on the basis of charges according to art. 27 and 45 of EPL as well as some of the charges mentioned in art. 85 of EPL;
- Funds realized on the basis of changes in ownership of the companies in privatization process;
- Revenues realized on the basis of international bilateral and multilateral co-operation on programs,
- Projects and other activities in the area of environmental protection and energy efficiency; revenues and receipts from the management of liquid money
- Assets of the Fund;
- Contributions, donations, grants, and assistance; other sources in compliance with law.

As regards earmarked environmental charges, 40% of revenues are allocated to the state budget (from where the money is transferred to the EPF) and 60% of revenues go to the budget of the local self government where the charge has been levied. The revenue is earmarked, i.e. shall be used for protection and improvement of the environment according to relevant policy.

The 2004 EPL provides for the possibility of establishing environmental funds also at the local government (municipal) level. Such local environmental funds shall be capitalized with revenues from the respective municipalities, plus a portion of the earmarked environmental charges. Additional financial resources may be provided from the central government and the municipal budget. Such local environmental funds currently exist only in a few municipalities (Aleksandrovac, Apatin, Bor, Cuprija, Despotovac, Jagodina, Kikinda, Kula, Obrenovac, Paracin, Požarevac, Secanj, Sremska, Svilajnac and Užice) and no information is available on their operations and financial resources.

In 2006, actual EPF revenues amounted to 888.7 mln RSD (roughly 10 mln EUR), as indicated in table 1. During 2007-2009, EPF revenues are expected to rise slightly. So far, the Fund has not received any revenues from privatization or donations from domestic or foreign sources.

	2006 actual	2007 estimated	2008 estimated	2009 estimated
Charges on motor vehicles use	363.1	388.5	420.0	542.0
Charges on the emissions of NO <sub>2</sub> , SO <sub>2</sub> and dust, as well as charges on industrial waste production and disposal	481.6	512.2	580.0	675.0
Charges on ozone-layer depleting substances	5.3	5.7	4.5	3.0
Charges on the collection of wild flora and fauna	38.7	41.4	55.0	78.0
Total	888.7	950.8	1'059.5	1'298.0

Source: [UNECE \(2007\)](#)

## 5. Spending Strategies

The EPF has a *medium term Action Program (2006-2009)* which is available at [www.sepf.sr.gov.yu](http://www.sepf.sr.gov.yu). The 2006-2009 Action Program starts with references to the draft NEAP document, which provides for the strategic framework for determining targets, covering analysis of identified problems and sources etc. However, up to now the NEAP was not approved by the Parliament. Nonetheless, the general goal for the period 2006-2009 is the establishment of an efficient framework of environment policy in accordance with the *acquis communautaire* of European Union with the aim of improving the environment quality in Serbia (determining the legal framework, development of sectoral strategies, investment plans, monitoring system improvement).

In the same period, activities regarding the realization of environment infrastructure improvement, nature conservation and biodiversity apply (such as waste water treatment facilities, sanitary waste deposit sites, technologies for air abatement, traffic congestion solutions etc). The EPF plans in this period to participate in supporting the following types of activities: completion of regional sanitary waste deposit sites; sanitation and remediation of existing deposit sites; reuse and recycling of waste; use of waste as an alternative fuel or energy source; industrial and medical hazardous waste treatment; decrease of harmful gaseous air emissions; cleaner technologies; remediation and recultivation of contaminated land in industrial sites; mining sites and ash deposit sites; increase of energy and resource efficiency and reduction of waste creation; increase of renewable energy sources use; introducing EMAS; decrease of oil refinery effects on environment; improvement of the quality of fuel and elimination of leaded gasoline; bio diversity losses decrease; increase of nature protected areas; improvement of existing forests; decrease of erosion affected areas; decrease of noise emissions in most endangered locations; decontamination of soil from depleted uranium; monitoring station on border for ionizing rays.

*Mid terms priorities* are defined as follows: Practical and financially feasible programs, projects and other activities which could be put in action at once in priority areas and in endangered locations. The EPF, in cooperation with the Ministry of Environment, as well as with other ministries and institutions (if applicable) will focus on realizing the following programs and goals:

- Solving existing problems with waste management, forming of contemporary methods of management environmentally friendly and economically stimulative, either through infrastructure improvement, decreasing existing environmental pressures, reduction of waste, reuse and recycle. Extremely bad state of the waste management, puts waste management as a priority number one in a

policy of mid term financing of environment protection and it actually means defining hierarchy of waste management, use of BATNEC producers responsibility for life cycle of the products, building of infrastructure for waste management of regional scope, education of all societal sections, acceptance of European integration values and integration with the EU, as well as elimination of present mistakes of waste management and practice.

- Cleaner production i.e. less waste, emission of gases and wastewaters from the production as a direct consequence of obsolete technologies, bad regimes of work, bad quality filtration, financing cleaner technologies, more efficient use of resource, efficient use of energy, production of environmentally friendly products, use of waste as an energy source, etc.
- Protection and improvement of air, water, land and forest quality as well as ozone lawyer and decrease of climate changes,
- Protection of natural resources particularly sustainable use, controlled use and research of mineral resource, controlled forest use, biodiversity protection, ecosystems and sites, wetlands protection as well as development of rural areas as important resources for development policy of the Republic of Serbia.
- Increase of energy efficiency, in consumption and production, distribution and transform, especially thermal energy, use of renewable energy sources, solar energy, wind, bio mass, geo thermal energy, increase of energy efficiency in building and transport.

A Government decision from July 2005 determined that the solving of the problem of managing solid waste and urban waste was a key priority in environment protection policy. According to this decision, initially the EPF would primarily use its means to finance the construction of regional waste deposit sites and the sanitation of local waste deposit sites. Only once these goals were achieved, funds would be allocated for other activities.

The EPF also has an *annual spending plan* available at [www.ekoserb.sr.gov.yu](http://www.ekoserb.sr.gov.yu). The Program of Work for 2006 projected that the majority of revenues will be used for solid urban waste management. The MB of the EPF reached the decision that investments totaling 821.4 mln RSD should be made for regional waste deposit sites, and 676 mln RSD should be allocated for financing waste deposit sites in the following municipalities: Kikinda, Nova Varos, Leskovac, Pirot, Uzice, Smederevo, Sremska Mitrovica. In addition, 3 mln RSD were allocated for preparing relevant investment documentation for waste deposit sites in the following municipalities: Zrenjanin, Prokuplje and Zajecar. For financing the sanitation of waste deposit sites in the municipalities Leskovac, Uzice, Vlasotince, Novi Knezevac and Arilje, 34 mln RSD were allocated and for the sanitation of waste deposit sites of Cajetina, Bajina Basta, Blasé, Indjija, 15.4 mln RSD were allocated. For the decrease of harmful air pollution 54 mln RSD was allocated for Obrenovac, where a large thermal power plant operates. For the monitoring of air quality, funds for acquiring monitoring equipment in the amount of 36 mln RSD was planned (to be installed in: Bor, Smederevo, Pancevo). Finally, for research and science projects in the environment protection field, 3 mln RSD were allocated.

According to the regulations, the assets of the Fund can be granted to legal and private entities through loans, guarantees and other forms of collateral, direct grants and interest rate subsidies of commercial loans. For the period 2006-2009, the EPF plans to allocate initially ca. 70-80% of available financial means in the form of grants. Gradually the share of loans in overall EPF expenditure is then planned to increase, so that it reaches 70% by 2009. For energy efficiency projects and for projects related to the use of renewable energy sources, the EPF provides loans.

Local government bodies and municipalities can receive co-finance from the Fund at a ratio of up to 80% of total investment cost if the municipality is located in an environmentally sensitive area, up to 60% of total investment if the municipality is located in a mountainous area or has limited financial sources (per capita income is less than 65% of the average per capita income in Serbia), or up to 40% of total investment in case of all other municipalities. Other beneficiaries can receive up to 40% co-finance from the Fund.

The EPF closely cooperates with the National Bank of Serbia. The EPF can cooperate with other financial institutions, including commercial banks. In order to secure the return of a loan extended by the EPF, the Fund determines the respective conditions as part of the call of applications, including respective insurance.

## 6. Expenditures

On the EPF website, the following realization of fund allocation is published:

- To the municipality of Kucevo, Sjenica (Govedjak, Uvac) 700.000 RSD were allocated for co-financing the development of project-technical documentation for the sanitation of solid urban waste.
- To the municipality of Prokuplje for building phase I of the regional waste deposit site 154.64 mln RSD were allocated (which corresponds to 40% of the total investment value).
- To the Vrsac municipality for building phase I of the regional waste deposit site 65.33 mln RSD were allocated (which corresponds to 40% of the total investment value).
- To the municipality of Vrsac for co-financing a project of disposal site sanitation 33.69 mln RSD were allocated (which corresponds to 40% of the total investment value).
- The municipality of Plandiste for co-financing a project on sanitation, 10.72 mln RSD were allocated (which corresponds to 60% of the total investment value).
- For the municipality of Blace for co-financing a sanitation project 4.96 mln RSD were allocated (which corresponds to 60% of the total investment value).
- In addition, funds for developing project fiches for building regional waste deposit sites and for developing projects and technical documents for the sanitation of solid urban waste were approved from the following applicants: the municipalities of Beocin, Presevo, Lebane, Vladicin Han, Crna Trava, Bosilegrad, Trgoviste, Medvedja, Zitoradja, Leskovac, Bojnik (maximum up to 700.000 RSD).

Above mentioned EPF allocations and work was made next to the environment sector work funded by various foreign and international agencies. For a brief overview of such work and related financing, see annex 1.

In 2006, overall, EPF expenditure remained rather modest in comparison with other domestic sources of environmental finance (see table 2 below).

## 7. Funding Cycle

Project cycle management of the Fund is regulated by various rulebooks adopted by the Fund Management Board. Based on Art 94 of the EPL and Art 13 Para 2 point 7 of the Fund Statute ("Official Gazette of the Republic of Serbia", No. 37/05) the Fund Managing Board adopted the "Rulebook on conditions and procedures of allocating the funds of EPF" as well as on "criteria and methodology of selection of applications for funds allocation". In addition, the following have been adopted: a "Rulebook on conditions to be met by the users of funds of EPF", a "Rulebook on the procedures of publishing tenders and decisions regarding selection of the beneficiaries of the funds of the EPF", and a "Rulebook on the methodology of monitoring of use of the funds of EPF".

**Table 2: Government environmental protection expenditures in million RSD, 2003-2006**

	2003	2004	2005	2006 estimated
Directorate for Environmental Protection	562.0	405.1	719.3	542.2
Environmental Protection Agency	n.a.	17.7	45.9	21.6
Environment Protection Fund	n.a.	n.a.	5.8	85.1
Agency for Recycling	25.0	16.7	25.2	42.9
National Investment Plan	n.a.	n.a.	n.a.	68.5
Water Directorate	1'906.0	2'300.0	3'207.0	3'900.0
Municipalities	...	...	1'387.1	...

*Note: Above data represent total governmental environmental expenditures according to functional classification of government expenditures as shown in the Serbian government budgets, whereas following expenditure groups have been included in the above table: waste management, environmental protection expenditures and water supply.*

Source: [UNECE \(2007\)](#)

The “rulebook on conditions to be met by the users of funds of EPF” stipulates that if applicants need to offer guarantees according to requirements published in the call for applications, and need to prove that they can realize the investments/proposed projects for which the funds have been allocated for. Basic eligibility criteria include that potential beneficiaries need to be registered in the territory of the Republic of Serbia, that they invest their own funds in supported projects, that they accept all conditions of co-financing defined in the general acts of the EPF and that they apply for the use of funds in accordance with the terms declared in the public announcement. Own funds for co-financing investments are defined as: monetary funds, equipment purchased for the realization of the investments financed by the EPF, credits and financial sources of other financing institutions extended for the investment, as well as other financial means of other legal and physical entities related to perspective investment.

The “Rulebook on the procedures of publishing tenders and decisions regarding selection of the beneficiaries of the funds of the EPF” stipulates that public announcements or call for applications need to be made regularly, i.e. once a year according to the program of work and financial plan of EPF. If, based on received applications not all available funds could be allocated, an additional public call for applications can be published during the course of the same year. The decision on executing a call for applications is made by the Fund Management Board on the proposal of the Fund Director. Public announcements need to be published in the “Official Gazette of the Republic of Serbia”, as well as in media.

Basic contents of public call for applications are regulated as well. It should consist of the: the object of public announcement, who is eligible to apply, documents needed to be submitted as part of an application, basic criteria to be met, deadlines for application, location where to hand in applications, and the date when the final selection from all applications will be made.

Project selection is basically done after scoring individual project proposals according to criteria such as: feasibility, ownership, technical and human resource abilities and environmental effects. More specifically, the following issues are assessed (maximum score that can be achieved is 50):

1. Preparedness of the program, project and activities for which the call for application was publicly announced, quality of expertise and technical documentation, level of preparedness for starting the works, level of own funds of the beneficiary (max. 5 points can be scored)
2. Level of environmental benefit, of benefit in terms of energy efficiency or use of renewable energy source (sustainable development, expected improvement of environment, increase of energy efficiency, synergetic attitude of the investor in solving environment problems, energy efficiency and fulfillment of international obligations, the level of priorities from NEAP as well as level of meeting requirements of national programs on energy): max. 5 points can be scored

3. Quality of envisaged technology: max. 10 points can be scored
4. Level of environment risk (biodiversity risk, natural resources, protected natural areas, level of pollution of water, land and air), pollution risk and adverse environment effects (air, water, biodiversity, climate and human health) max. 15 points can be scored
5. Financial viability of the prospective beneficiary; max. 5 points can be scored

Once scoring is completed, all project proposals are listed according to total score achieved. In order to assess and analyze applications the Fund Director can form a commission which reports back to Director once the work is completed. Such a report consists of the expert assessment of applications and recommendations regarding which applications should be supported.

The final decision on extending EPF support, i.e., project selection, is made by the EPF Management Board. This decision is then made public, including in the “Official Gazette of the Republic of Serbia” and in selected media. In a next step, contracts are then signed with beneficiaries. Contracts with beneficiaries include the total co-finance allocated by the EPF, payment schedules, conditions and means for using allocated funds, means for monitoring the correct use of the funds, as well as rights and obligations of beneficiary.

## **8. Evaluation, Reporting and Public Information**

According to the EPF regulations, the EPF should follow the rules of the Law on Budget System and thus the monitoring of EPF’s performance is done by the budget inspection on a regular basis and according to accepted international accounting standards, as is the case with other governmental bodies. Not only does the budget inspection control whether the rules of the budget system have been applied, but also whether the EPF has been operating according to the laws.

Regarding the public information policy of the EPF, the EPL prescribes that the work of the EPF shall be transparent. Among others, transparency of the EPF work shall be ensured by:

- The work of the MB and the SB shall be open and public;
- General acts and programmes of work of the EPF shall be publicly announced;
- Yearly public reporting on the work done by the EPF in accordance with the law shall be done.

## **9. Major Achievements**

Since 2006, the EPF is allocating grants for project preparation for projects in the areas: sanitation, recultivation and closure of existing landfills, and, for the construction of regional landfills. Since 2007, the EPF has contracted actual projects, i.e. construction works of regional landfills. About 90% of current revenues have been allocated to solid waste management projects. So far, none of these investment projects has been finished yet. It is therefore too early to report on actual and major achievements of EPF operations.

## 10. Challenges and Future Prospects

In 2006, the amount from charges accruing to the Environmental Fund was about 0.02% of GDP. However, with the current narrow coverage of charges, the EPF will not bring in a significant amount of money or support projects eligible for financing, such as those on environmental protection, energy efficiency and renewable energy (*source: UNECE (2007)*).

In the EU accession process, implementation and enforcement of adopted environmental legislation creates a demand for mobilizing financial resources. The experience of the new EU member states shows that the majority of needed financial resources must be generated through domestic sources of finance. The demand for mobilizing financial resources reflects the willingness of polluters and users of environmental resources to pay for investments needed to reduce the pollution in accordance to the polluter pays principle. Usually, the demand is created in two sectors, enterprises and municipalities. State- or privately-owned enterprises invest in pollution prevention, treatment and control of their companies. Municipalities primarily invest in municipal services provision through infrastructure development for water supply, wastewater treatment, solid waste management and district heating that should ultimately be paid by end users through service charges and fees.

It is generally accepted that environmental policy instruments, such as economic instruments, should provide incentives for enterprise investments, and that enterprises should use their own resources according to the polluter pays principle. Municipality investments are linked to national policy goals, and the polluter pays principle is implemented through applying charges on the service users.

Traditionally, public sector environmental expenditures depend on three sources of domestic finance: local government revenue, transfers from central government budgets, and environmental funds. In Serbia, municipalities face a need for major reforms of their budgets and operations to be able to support environmental improvements and ensure that operational and maintenance costs are covered. Full application of the polluter-pays principle is additionally limited by affordability problems. Transfers from central government budgets are going to be marginalized as a result of the decentralization process.

Therefore, public budgets in the short term and medium term will have an essential role in financing rehabilitation and capital investments and in providing social protection to overcome affordability problems while facilitating access to credits.

Experience from the new EU member states shows that the existence of an effective public domestic financing mechanism for environmental improvements supports the implementation of environmental projects in a very efficient way. Serbia is still in the process of establishing and reforming environmental financing mechanisms. One of the possibilities was a creation of an EPF or expenditure programme for which revenues are generated mainly through economic instruments and are earmarked for environmental purposes. However, from a public finance perspective, earmarked economic instruments can result in inefficient use of public resources over the long term. However, due to the legacy of environmental problems arising from past practices in the region and the imperfections of markets and institutions in transition countries, environmental funds are regarded as useful transition instruments if managed efficiently and effectively.

In cases of scarce public funds and continuous competition with socioeconomic needs and priorities, the introduction of specific well-targeted expenditure programmes can be seen as a way to efficiently use these limited resources. As is often the case, ministries of finance, following IMF guidance, have hindered ministries of environment in their efforts to establish environmental financing mechanisms; such was the case in Serbia as well. The rationale behind this approach stems from the common fear that these instruments will lack sound expenditure management.

Therefore, special attention should be paid to following good practices in developing environmental expenditure programmes. Developing an environmental expenditure programme should be conducted in the following steps:

- Define priority environmental objectives. Ensure that these are specific, measurable, realistic and time-bound.
- Determine whether public expenditures are necessary to achieve these objectives. If not, use other policy instruments, such as permits or taxes to achieve environmental policy objectives, saving public money for other uses.
- Define the approach to project identification and prioritization. Selection of the best projects which will achieve the expenditure programme's objectives is crucial to the success of the programme.
- Define sources of funds, the size of the financial envelope and an expenditure programme. It should include in particular cost estimates and indicators of performance.
- Select the best institutional arrangement for managing the expenditure programme
- For larger programmes that involve financing capital investments, special institutional arrangements may be required. Various implementing agencies may be appointed.
- Finally, more assistance could be provided in the future for building up national-level innovative environmental financing mechanisms. Environmental funds are only one form of financing system. Therefore, developing a comprehensive system of environmental financing on a national level with a broad range of instruments included to optimize the mechanisms for the various sectors with the ultimate goal of creating own sources of funding should be further explored.

## **Annex 1: The EPF in the context of foreign financial assistance to the environment sector in Serbia**

It might be interesting to consider the EPF budget (roughly 10-13 million EUR revenues per annum) in the context of foreign and international sources of finance for environmental protection in Serbia.

According to data compiled by the Ministry of International Economic Relations (MIER), total disbursements of multilateral and bilateral financial assistance in Serbia amounted to some 650 million EUR in 2005, corresponding to 3.1% of GDP. Environmental protection projects accounted for some 23 million EUR or 3.5% of overall foreign financial assistance. Coordination of international assistance is carried out by the Development and Aid Coordination Unit (DACU) in the MIER. An Inter-Sectoral Working Group for Coordination of Humanitarian and Development Assistance (ISDACon) was established by the Government to contribute to more efficient management and use of international financial support across the various sectors. It also compiles and disseminates information on foreign financial support to Serbia.

The EU has played a leading role in supporting Serbia with financial and technical assistance to improve institutional capacity-building for the environmental infrastructure. The main EU financial instrument in Serbia has been the *Community Assistance for Reconstruction, Development and Stabilization* (CARDS) programme, launched in 2001. The programme has been managed mostly by the European Agency for Reconstruction (EAR). (Exceptions are the *Tempu* programme and the *Customs and Taxation Projects*.)

Environmental projects have been financed as part of the priority area “economic and social development”. A core principle guiding CARDS assistance is that of harmonization with the EU *acquis communautaire* and the associated approximation with EU norms. Between 2002 and 2005, total EU financial assistance to Serbia amounted to some 740 mln EUR, of which about 34 mln EUR (or some 4.5%) was for environmental projects. Support for rehabilitation of energy infrastructure (some 420 mln EUR) has been accompanied by significant environmental improvements (reduced air pollution, etc.). The expenditures on environmental projects (as defined by EAR) therefore significantly understate the overall funding devoted to pollution abatement and control and other environmental protection measures.

International financial institutions (e.g. EBRD, the European Investment Bank, and the World Bank, IFC) have supported the Government of Serbia in addressing major problem areas, including rehabilitation of the environmental infrastructure. For example, EBRD has supported projects to rehabilitate the energy sector and municipal infrastructure (wastewater treatment plants and regional landfills).

The financial involvement of the United Nations Development Programme (UNDP) in environment related projects in Serbia was relatively small during the period 2001–2005. The total budget for the “energy and environment” cluster for 2001–2005 amounted to some USD 0.8 mln, or 1 % of the total budget for UNDP supported projects in Serbia. Projects have mainly been related to the development of a biodiversity strategy action plan, national capacity self-assessment and the interface between energy and the environment and between poverty and the environment. The main sources of financing were UNDP administered trust funds and cost-sharing funds, which together accounted for more than 90 per cent of total financial resources. UNDP, in cooperation with EAR, was also implementing the EU-funded *Municipal Improvement and Revival* (MIR) programme in 11 municipalities in South Serbia, the poorest region of the country. The programme also included the financing of projects related to rehabilitation of water supply networks, water treatment, sewage facilities and solid waste management. It is noteworthy that implementation of projects was conditional upon a 10 % financing contribution from the local communities, which demonstrated their commitment to a project. In addition to multilateral institutions, many bilateral donors have been active in Serbia, with assistance being provided mainly through the corresponding national development agencies, such as United States Agency for International Development (USAID), GTZ and the Swedish International Development Cooperation Agency (SIDA). Bilateral assistance amounted to some 130 million EUR in 2005, of which 4.9 million EUR (or 3.1%) was for environmental protection. Of this amount, 3.1 million EUR (or 63%) went to water-related projects.

## Annex 2: Environmental expenditure on municipal level in Serbia

As mentioned in section 4, municipal environmental Funds have been established in selected municipalities in Serbia.

Municipal revenues for financing of environmental expenditures are limited to their share (60%) of earmarked environmental charges contained in the EPL. Apart from this, there is no systematic information on the magnitude of central government transfers to support municipal environmental spending. In principle, municipalities are authorized, subject to an “opinion” from the Ministry of Finance, to borrow from domestic banks to finance environmental projects. But there are restrictions concerning the size of the loans and the total amount of debt that can be accumulated. Also, financing conditions are often not favorable, and many (possibly most) municipalities do not have surplus funds for debt servicing. In principle, investment projects should be embedded within a multi-annual financial planning framework, but this appears to be the exception among municipalities in Serbia. Some municipalities have received loans from domestic banks for co-financing projects which were mainly financed by international financial institutions. These include solid waste management in the Peinjski District (the World Bank) and municipal infrastructure reconstruction in the City of Subotica (European Bank for Reconstruction and Development (EBRD)).

Summary information on overall environmental expenditures of municipalities in 2005 is available in table 3 below.

COFOG* Category	RSD mln	% of total
5.1. Waste management	450.6	32.5
5.2. Wastewater management	133.2	9.6
5.3. Pollution abatement	228.0	16.4
5.4. Biodiversity and landscape protection	34.8	2.5
5.5. Environmental Research and Development	208.4	15.0
5.6. Environmental protection	332.1	23.9
Total above	1'387.1	100.0
Memorandum item: Environmental protection expenditures as % of total municipality expenditures	...	1.4

Note: \* COFOG = Classification of Functions of Government  
Source: [UNECE \(2007\)](#)

## Annex 3: Exchange rates

	2003	2004	2005	2006	2007
RSD / USD	57.6	58.2	72.6	62.0	55.3
RSD / EUR	72.3	79.4	85.9	81.9	81.4

Sources: [www.oanda.com](http://www.oanda.com)

#### **Annex 4: Abbreviations used in this profile**

BATNEC	Best available technology not entailing excessive cost
CARDS	Community Assistance for Reconstruction, Development and Stabilization
COFOG	Classification of Functions of Government
DACU	Development and Aid Coordination Unit
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EMAS	Environmental Management and Accounting System
EPF	Environmental Protection Fund
EPL	Environment Protection Law
EUR	Euro (currency)
GDP	gross domestic product
GTZ	Gesellschaft für Technische Zusammenarbeit GmbH (Germany)
IMF	International Monetary Fund
ISDACON	Inter-Sectoral Working Group for Coordination of Humanitarian and Development Assistance
MB	Management Board
MEP	Ministry of Environment Protection
MIER	Ministry of International Economic Relations
NEAP	National Environmental Action Program
NES	National Environmental Strategy
RSD	Serbian Dinar (currency)
SB	Supervisory Board
SIDA	Swedish International Development Cooperation Agency
UNECE	United Nations Economic Commission for Europe
USAID	United States Agency for International Development
USD	United States Dollar (currency)

#### **Annex 5: Selected sources and references used for preparing this institutional profile**

- Environment Protection Law («Official Gazette RS, No. 135/2004) as well as various additional legislation as mentioned in the text
- Environmental Protection Fund. Annual Working Program 2006. Belgrade, March 2006.
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