

# Policy Brief



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In cooperation with:



## Local Finances and the Environment

### What are the key issues and possible solutions?

Serbia is facing serious challenges in the field of environmental protection and harmonizing its standards with those of the European Union. To overcome these challenges, it is necessary to spend at least 10 billion euros. Currently, Serbia spends less than 0.5% of its GDP on environmental protection, which is below the average sum allocated in the EU and far less than the amount allocated by the countries of Central and Eastern Europe during their accession process. Before the share of share of GDP allocated for environmental protection increases, it is important to have a quality system of planning and utilization of funds designated for environmental protection. This is particularly important in case of local self-governments, where, on one side, there is a large scope of competences with regard to environmental protection, and, on the other side, insufficient capacities, as well as different practices.

Serbia, therefore, must ensure existence of an effective system of financing environmental protection at the local level, as soon as possible. This is imperative, not only for citizens' quality of life and the sustainability of the economy, but also for the successful completion of the EU accession process. Such a system must be transparent and must involve consultations with representatives of state institutions, civil society and the private sector, to ensure informed and responsible decision-making.

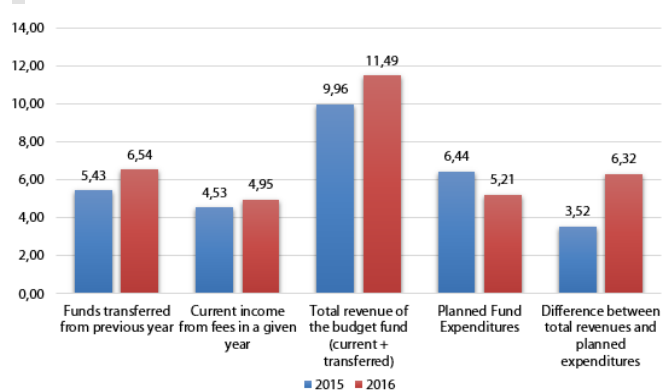
This policy brief provides an overview of the current situation in terms of financing environmental protection at the local level and recommendations for overcoming the identified issues. The brief is based on the policy research in which official documents and information from state institutions and (145) local self-governments, as well as responses to questionnaires sent by the officers from (92) local self-governments and representatives (97) of environmental civil society organizations were analysed.

#### What are the Key Issues?

The research results point out serious problems facing local self-governments in terms of planning and utilization of financial resources within local funds for environmental protection. Most local self-governments, spend less resources than they collect by means of dedicated fees. This situation was observed in five out of the past six years. The total amount of unused funds (which is transferred from the previous year to the next) has increased; in 2016 it reached 6.5 billion dinars.

The number of local self-governments that develop programs for utilization of available funds is continuously decreasing. The amount of funds that local self-governments plan to spend in accordance with the program for utilization of financial resources within local funds for environmental protection has also been significantly reduced.

Illustration. Planning funds in local budget programmes' funds for environmental protection (in billions of RSD).



The illustration shows that this difference amounted to 3.5 billion dinars in 2015, while in 2016 it increased to as much as 6.3 billion dinars. Large number of local self-governments (65 in 2015 and 60 in 2016) have not planned the utilization of funds from previous year, within programs for the next year. Such non-transparent conduct indicates towards the possibility that, in some local self-governments, funds are only formally transferred into the next year, while they may have already been inappropriately spent. In programs and reports on the utilization of financial resources within local funds for environmental protection, as well as in the final accounts of majority of local self-governments, a financing of a significant number of activities that does not belong to environmental protection, or whose presence in that area is debatable, can be observed.

*The amount of funds that local self-governments plan to spend in accordance with the program for utilization of financial resources within local funds for environmental protection has also been significantly reduced.*

Thus, in 2015, 89 and in 2016, 90 local self-governments planned (via programs) activities which, under the Rulebook on the Standard Classified Framework and Account Plan for the Budget System, do not fall under environmental protection. Examination of the reports on the use of funds, in 2015, reveals that 53 local self-governments carried out and financed activities that do not belong to environmental protection.

Examination of the reports on the use of funds, in 2015, reveals that 53 local self-governments carried out and financed activities that do not belong to environmental protection. Examples of financial mismanagement include renovation of district roads, maintenance of drainage networks, maintaining and equipping anti-hail service, construction and maintenance of water supply system<sup>1</sup>, the construction of heating pipelines, building and maintaining road infrastructure, recovery of the consequences of floods and landslides, subsidizing zoos, pest control, animal hygiene and the control of ragweed.

*Many local self-governments carried out and financed activities that do not belong to environmental protection.*

Programs and reports on the utilization of financial resources within local funds for environmental protection are not made according to the same form. By analysing the content of reports, low transparency of information in reports on the utilization of funds can be observed in the past three years. The absence of a uniform rules for drafting such documents reduces their transparency, which complicates monitoring of the utilization of funds, and increases the possibility for irresponsible decision making.

Large number of local self-governments does not produce a report on utilization of financial resources within local funds for environmental protection. For 2015, it can be strongly asserted that 98 local self-governments (out of 145) produced a report. Furthermore, reports are rarely adopted by the same authority which adopted the program for utilization of local environmental funds (see table). Especially noteworthy is the fact that only 6 out of 50 local self-governments, in which the local assembly adopted the program, is the authority which adopts the report. This practice again points out the inadequate level of transparency, which increases the probability for mismanagement of environmental funds.

Responses to the questionnaire show that, on average, local self-governments have one or two expert associates and inspectors for environmental protection, while 80% of the local self-governments do not have people who are exclusively engaged in the planning and utilization of financial resources within local funds for environmental protection, which is an indicator of insufficient capacities at the local level. Conversely, most officers are qualified, i.e. they generally have a high level of education, which is either directly associated with environmental protection or is closely related (various engineering professions). A positive practice is that, in majority of local self-governments (80%), consultations pertinent to the planning of the utilization of environmental funds, take place between representatives of the municipal/city council and local authorities. In 70% of local self-governments, officials involved in the planning and utilization of environmental funds consult with external experts.

Finally, the analysis of questionnaires completed by the local self-government representatives and civil society organizations indicates a relatively low level of public participation in the process

of planning the utilization of financial resources within local funds for environmental protection. According to representatives of civil society organizations, about 10-20% of CSOs are involved in planning, and in terms of monitoring the utilization of environmental funds, participation is indeed higher (43-51%).

Authority who Adopted the Document	Program of the Local Fund for Environmental Protection	Report of the Utilization of Financial Resources within Local Funds for Environmental Protection
Local Assembly	50	6
City Council	61	16
Mayor or President of Municipal Assembly	4	16
Municipal/City Council	5	60
No Information on who Adopted it	13	/
No Valid Report	/	11
No Adopted Documents	12	36
Total	145	145

According to representatives of local self-governments, most local self-governments (78%) do not organize public debates. Representatives of both sectors agree that the participation of civil society is insufficient and that the reason is a lack of information on the system of financing and opportunities to participate in planning of utilization of environmental funds. At the same time, certain differences can be observed, because a large number of local self-governments perceive the indifference of the public as the key reason for low participation of civil society representatives, while civil society representatives perceive a limited interest of local self-governments to involve the public in the decision-making process, as one of the key reasons. This leads to the conclusion that both reasons could potentially have a significant impact on the lack of involvement of civil society in the planning and monitoring of the utilization of funds.

### Next Steps

Based on the results, three options were considered for further development of the system for financing of environmental protection at the local level:

- Option 1 - Improving the financing of environmental protection through interventions in the existing legal framework (option of zero legislative intervention)
- Option 2 - Improving the financing of environmental protection with the improvement of the legal framework within the existing division of competences between the central and local level (option of moderate legal intervention)
- Option 3 - Centralization of environmental financing through reallocation of competences from the local to the national or provincial level of government (option of radical legal intervention).

2. This does not fall into the category of environmental protection under the Rulebook on Standard Classification within Framework and Account Plan on Budget System.

By comparing aforementioned options, the research team concluded that the priority should be given to Option 2, because regulatory changes would enable a wide area for improvement of the current situation, including measures envisaged under Option 1. Conversely, although the centralization of environmental financing could lead to development of a more coherent policy of environmental financing and overcoming the problems that (some) local self-governments face, such a step would pose an additional burden to the state and provincial authorities and make the financial system too rigid and insufficiently adaptable to local specificities.

Based on the identified problems and options, following recommendations can be provided for the improvement of the financing of environmental protection at the local level:

### ***Changes to National Regulations***

- **Through amendments to the Law on the Budget System restore the dedicated character to revenues from environmental protection fees.** Amendments to the aforementioned law from December 2015, which abolished the dedicated nature of these revenues, only legalized the possibility (and ongoing practices) that local self-governments allocate the money from the local funds for environmental protection to other users, and plan and spend money on activities that do fall under environmental protection. Restoring the dedicated character of the fees is the first step in shifting the direction of these practices;
- **Through the amendments of the same law, stipulate that the local assembly establishes the budgetary fund for environmental protection, adopts the program for the environmental fund and adopts the report. Moreover, the responsibility for the execution should clearly lie with the President of the municipality or the Mayor** (for increased transparency of the whole process and accountability of the decision-makers);
- **Adopt a bylaw on the method of preparation and the criteria for determining the content of the program for utilization of the of the budgetary fund.** In this way, the new bylaw would contribute to the suspension of the existing practice of uneven preparation of programs by local self-governments, which negatively affects transparency and comparability, and, consequently, the responsibility with regard to the preparation of programs and utilization of financial resources within local environmental funds;
- **Adopt a bylaw on the method of preparation of the report on the use of budget funds** (in order to increase transparency reports and accountability of decision-makers);
- **Develop a separate rulebook with eligibility criteria for financing of environmental protection.** The existing Rulebook on Standard Classification Framework and Account Plan for the Budget System is identical to the methodology of reporting used by the UN and the EU (Classification of the Functions of Government - COFOG<sup>2</sup>). However, for greater accuracy i.e. in order to avoid different interpretations and ambiguities regarding the utilization of environmental protection fees, it would be useful to draft a rulebook with national classification framework that would then, with special methodology, be coordinated with the international classification (which is the practice in some Member States). Such a rulebook would entail detail explanations as to which activities can be considered activities that serve to protect the environment, because such a classification framework would be too rigid and would not take into account specificities of local communities. However, a more flexible national framework could include clear criteria and indicators on the basis of which it could be established whether the funded activity would serve to protect the environment;
- **Prescribe measures for instances where the local self-governments in the program for budgetary fund for environmental protection, without reasonable cause, have less expenditure relative to their revenue from fees for environmental protection** (for instance, restrict the application for funding of the ministry in charge, the temporary suspension of transfers, etc.). As part of these measures, it is important to distinguish between local self-governments that have a justification for such a transfer of funds from those that do not have such a justification. The local self-government would have to make these justifications within the report on the utilization of environmental funds, while the validity of these statement would be decided by the ministry in charge of environmental protection. The Ministry would verify other relevant information and data, for example, whether local self-government, without any justified reason (for example, failure of public procurement procedures, weather conditions, etc.) had less expense than the amount of revenue accrued via fees; whether the report shows that the funds are used for activities that do not fall under environmental protection, or are used for the program for which the Ministry did not give its approval; and whether the program for utilization of environmental funds for the coming year shows the transferred assets from the previous year;
- **Introduce a legal obligation to organize consultative meetings and other forms of public participation (for example, public review, submission of opinions within at least 20 days) when adopting the program for utilization of financial resources within the local budgetary fund.** Local "Green Councils", gathering representatives of both public and civil sector, could be of great benefit in terms of institutionalization of such forms of cooperation;
- **Dedicate part of the funds to CSOs to support projects that contribute to improved control of public finances in the field of environmental protection at the local level, including strengthening the capacity of CSOs to carry out such activities;**
- **Introduce a legal obligation for local governments to keep records of CSOs involved in environmental protection at the local level and other CSOs and citizens who had previously expressed an interest in participating in the decision making process related to financing of environmental protection.**

2. Official website of UN Statistics Department: <https://unstats.un.org/unsd/cr/register/regcst.asp?Cl=4>.

**Based on such evidence, local self-governments could also have an obligation to inform the concerned public through a direct notification pertaining to all relevant issues;**

### **Improvement of the existing practices of state authorities**

- **Improve the procedures in the ministry in charge of environmental protection for control, analysis and comparison of reports on the utilization of financial resources within local funds for environmental protection;**
- **Update the Eco-register maintained by the Agency for Environmental Protection with programs on how each local self-government utilizes the financial resources of the local environmental funds and reports on the implementation of these programs;**
- **Strengthen the surveillance over the use and monitoring the use of financial resources of local funds for environmental protection. In this regard, it is necessary to strengthen the capacity of state institutions for monitoring and financial control.** It is particularly important to further strengthen the capacities of the State Audit Institution and Budget inspection of the Ministry of Finance, so that they can check the utilization of local budgetary funds more effectively and more frequently. Officials of these institutions should also be better acquainted with the use of funds for environmental protection. This can be achieved by strengthening cooperation with institutions, experts and associations involved in the protection of the environment, through the intensification of coordination in addressing common issues and maintenance training, workshops and consultative meetings;
- **Strengthen the cooperation between the ministry in charge of environmental protection and the Ministry of Finance, as well as for cooperation with CSOs, regarding the control of the environmental financing system, the implementation of environmental policy at the local level, exchange of information, the adoption of new and harmonization of existing legislation.** One way to improve such cooperation may be the introduction of thematic areas

pertaining to control of environmental financing in tenders for CSOs projects within environmental protection funds.

### **Recommendations relating specifically to local self-governments and CSOs**

- **Local self-governments in Serbia, which have not yet done so, should consider the possibility of introducing local environmental protection fees in order to ensure adequate financial resources for environmental protection;**
- **Strengthen the cooperation between local self-governments in terms of technical support and exchange of experiences in terms of financing environmental protection, and cooperation with the civil and the private sector with regard to aforementioned topics** (with the support of the Standing Conference of Towns and Municipalities);
- **Strengthen the cooperation and communication between local self-governments and the ministry in charge of environmental protection in order to exchange knowledge and important experiences pertaining to financing of environmental protection.**
- **Implement measures to raise the capacity of CSOs and the general public to participate in planning and monitoring the utilization of financial resources within local funds for environmental protection** (workshops, training, publications, websites, TV shows, campaigns, expert consultations). Local self-governments would be responsible for implementation of these measures, with additional professional support from the ministries and provincial secretariats responsible for environmental protection.
- **Strengthen the cooperation between CSOs that monitor public finances and environmental CSOs at the national, the provincial and the local level.**

*\*The views expressed in this Policy Brief are the sole responsibility of the authors.*

European Policy Centre - CEP - is a non-governmental, non-profit, independent think-tank, based in Belgrade. It was founded by a group of professionals in the areas of EU law, EU affairs, economics and public administration reform, with a shared vision of changing the policy making environment in Serbia for the better – by rendering it more evidence based, more open and inclusive and more substantially EU accession driven.

For more information, please visit: [www.cep.org.rs](http://www.cep.org.rs)

Ecological Centre "Habitat" is a non-governmental, non-profit organization, established in Vršac in 2007, with a mission of improving the relations of local communities towards the environmental protection. The goal of the organization is to help local communities in Serbia with its knowledge and skills, in order to solve these problems.

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