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Needs for investment in environmental protection are much greater than the funds received from environmental protection fees. Even still, collected revenue is not fully used as planned expenditures are less than revenues, even less than is planned for is actually spent, and a good deal of spending goes to programmes that are not related to environmental protection.

How we wasted half a billion euros

Serbia needs to invest significant resources in order to implement EU environmental legislation. According to estimates from 2011, €10.5 billion should be invested, mostly in wastewater management (5.6 billion) and waste management (2.8 billion), to reach necessary standards. More recent estimates (from 2015) envision costs of around €15 billion. In the experience of previous enlargement processes, candidate countries had to invest 2-3% of their annual GDPs for environmental purposes. It is estimated, however, that Serbia has only invested between 0.25% and 0.7% of its GDP over the past nine years.

From 2010 to 2019 the Habitat Ecological Centre (both alone and in cooperation with the European Policy Centre - CEP) conducted seven research projects based on document analysis on the state of the system for financing environmental protection in Serbia with particular reference to local governments. Documents were requested through requests for access to information of public importance from the Treasury Office, the Ministry of Environmental Protection, from all 145 municipalities and cities of the territory of central Serbia and AP Vojvodina, as well as from the municipalities of the city of Belgrade for this research. Based on the analysis of this information, the following conclusions can be drawn about the state of financing of environmental protection:

- (I) **At all levels of government, it is common practice to use part of the revenue from environmental protection fees for non-targeted expenditures.**

Until the end of 2015, revenues from environmental protection fees had to be spent through the Green Fund of the Republic of Serbia and budgetary funds for environmental protection at the local level. This was prescribed by the provisions of several laws on environmental protection, waste management, packaging waste, the protection of nature, water and the protection and sustainable use of fisheries.

Despite this commitment, significant amounts of revenue from environmental protection fees were used for non-environmental purposes without any consequences.

Since the end of 2015, as amended by the Budget System Law, these funds are no longer earmarked and can therefore be used for any purpose. This has seriously jeopardized the system for financing environmental protection. The

provisions of environmental laws have been rendered effectively meaningless and authorities at all levels are encouraged to proceed freely, and in even greater amounts, with the reallocation of these funds, now without violating regulations.

Since the beginning of the period, cumulative expenditures for environmental protection in the budget funds at all levels of government have been less than current revenues from environmental protection fees. This practice has been reported almost every year, and in about 80% of municipalities and cities. In the past nine years, about 11.5 billion dinars less has been spent than was collected through such fees.

Unused funds carried over from previous years are usually not included in total revenues for the current year, although this is required by law. In the programmes of the funds for 2015 and 2016, only 23 local governments reported transferred funds in full, while only 7 and 8 did so in 2018 and 2019, respectively. On the other hand, the number of municipalities and cities that do not





Serbia invests significantly less than is necessary in environmental protection, with just between 0.25% and 0.7% of its annual GDP. With such low investment, and with high amounts of spending for other purposes, neither the needs of citizens nor the obligations of Chapter 27 can be met.

account for transferred funds (despite their presence) increased from 50 to 70. This indicates that environmental protection fees are consciously and systematically allocated for other purposes already in the planning phase.

At the state level the situation is even worse, especially after the abolition of the Environmental Protection Fund in September 2012 (renewed only in 2017 as the Green Fund). In the past nine years, the total revenues for this fund were about 48 billion dinars, while its expenses were only about 14 billion dinars, indicating that 34 billion dinars were reallocated.

Calculating in euros, by the end of 2018, a total of approximately €387 million of available funds have been used on other purposes and outside of the Environmental Protection Fund, constituting approximately €288 million from the state budget and around €99 million from the budgets of municipalities and cities.

(II) What was spent through local funds was very often used for purposes unrelated to environmental protection.

In addition to the money spent outside the funds, in about 60% of budget funds significant amounts were planned for and spent on non-environmental purposes. Since 2010, around €100 million (up to 1.5 billion dinars annually) has been spent in this way.

The Rulebook on Standard Classification within the Framework and Account Plan on the Budget System stimulates that activities in areas such as community development, water supply, street lighting, agriculture, energy, multi-purpose development projects, and more are not related to environmental protection. These, therefore, cannot be implemented through the Environmental Protection Fund and cannot be funded by environmental protection fees.

In total, therefore, since 2010 approximately €487 million has been lost to citizens and businesses. With this money, for example, 20 regional landfills could have been built, thus significantly improving waste management in Serbia (the landfill in Subotica cost €24 million, seen as expensive by the public).

Examples of mismanagement of money from local funds include use in subsidies to utility companies, street paving, bridge reconstruction, road construction, winter services, canal cleaning, flood damage repair, dog trapping (including costs paid out for dog bite claims and court costs), mosquito and tick extermination, well repair, water infrastructure costs, bus procurement, payment of gas debt, public lighting, installation of joinery, roof repair and more.



(III) At the local level, less and less money is being planned for environmental protection.

In recent years, it has been noted that municipalities and cities have planned reductions in spending on environmental protection programmes. Planned environmental protection expenditures are usually lower than current revenues from fees. In 2015, planned expenditures amounted to 6.45 billion dinars total for all municipalities and cities. As funds from fees ceased to be earmarked, exactly one billion less was planned for in 2016, and only 4.6 billion dinars were planned for in 2019. As revenue from fees increased from 4.5 billion to 6.3 billion dinars in the same period, the only reason for reducing such expenditures is municipalities and cities taking advantage of the opportunities created by amendments to the Budget System Law.

A growing number of local governments have in fact abolished environmental protection funds. In 2013, the city of Sremska Mitrovica was the only one to have abolished theirs. By 2019, however, a total of 22 municipalities and cities have done the same. The reason for closing such funds is the end of earmarking revenue from fees.

(IV) In addition to the main conclusions and problems, it is important to point out the following findings:

Programme and report transparency is decreasing.

Reports are rarely adopted by the same authority that adopted the programme. More than 90% of total programmes are adopted by a local assembly, council, mayor or president of municipal assembly. However, only one third of reports are adopted by the same authority that adopted the programme. The reports are generally adopted by the municipal/city government, without publication in the Official Gazette. If there was no obligation to submit reports to the Ministry, it is questionable whether they would be drafted at all. It seems that authorities are happy to announce plans, but it is apparent that they tend to hide what was actually done and how much money was spent from the public. There is also a large

Less and less money is planned to be invested in environmental protection. Money from environmental protection fees is allocated for other purposes intentionally and in a systematic manner, as early as at the planning stage. This happens every year, in about 80% of local governments.

number of municipalities and cities that do not provide clear information in published documents about what activities are planned and implemented, instead providing generic descriptions from which it is not possible to clearly conclude upon activities involved and their relation to the environment, as well as amounts spent on each item. Most often, these are the most expensive items.

The distribution of revenue from environmental protection fees between national, local and provincial budgets is irrational.

The laws prescribe ten fees designated for environmental protection funds, as well as the percentage of their distribution between different levels of government. While national and local budgets had revenues of 4 to 8 billion dinars a year from such fees, AP Vojvodina received revenue only from one fee, for a total of between 10 and 14 million dinars. Given that AP Vojvodina has competences in the area of environmental protection, provincial budget expenditures for this purpose

are from 300 to 500 million dinars a year. Thus, the existing distribution of revenue leads to a paradox, in which significant amounts are spent for unrelated purposes at the state and local levels, while funds from other budget sources must be mobilised for environmental protection in AP Vojvodina.

During the period from 2010 to 2018 a total of €487 million was collected from companies and citizens in Serbia through environmental protection fees at all levels of government. For this money 20 regional landfills could have been built, thereby significantly improving municipal waste management. In order to remedy the current situation, it is necessary to make sure that fees are used for intended purposes, to strengthen financial discipline measures, and to increase transparency and public participation in decision-making.



RECOMMENDATIONS:

Bring an end to the redirection of resources intended for environmental protection to other purposes.

Amendments to the Budget System Law from December 2015 led to a series of devastating consequences, nearly destroying the system for financing environmental protection at all levels. That is why the first and most basic condition for improving the situation is to return environmental protection designations to revenue from environmental protection fees as soon as possible.

Strengthen and implement measures to increase financial discipline.

Noting the practice of other uses of funds even when earmarked for environmental protection, it is necessary to temporarily suspend financial transfers from the national budget in cases in which authorities plan to make or incur expenditures less than revenue from fees or in which they do not submit reports to the Ministry. Transmission suspensions should actually be implemented.

Allocate revenue from environmental protection fees between the national and provincial budgets more rationally.

Following the amendments to the Law on Waste Management, revenues generated in the territory of the AP Vojvodina from the fee for products that become special waste streams after use should be fully transferred to the province's budget. In this way the budget of AP Vojvodina will be increased by about 600 million dinars a year.

Increase the transparency of the use of such funds, ensuring the substantive participation of the public in decision-making.

In accordance with Article 100 of the Law on Environmental Protection, the Minister shall prescribe acceptable annual programmes for the use of funds and reports on the use of local and provincial budget funds. Submitted programmes and reports should be made public on the website of the Ministry or of the Agency for Environmental Protection. Amendments to the Budget System Law (Article 64) are needed to stipulate that local assemblies adopt the programmes and produce relevant reports. Amendments to the Law on Environmental Protection are needed to prescribe measures that will ensure the substantive rather than formal participation of the public in the process of adopting programmes.

Increase the number of local self-governments with budget funds.

When announcing tenders, it is necessary for national and provincial authorities to allow local self-governments to apply, noting the existence of their own, locally-adopted programmes for the use of funds.

Encourage citizen associations to monitor the financing of environmental protection..

There are problems with the financing of environmental protection at all levels. The republic cannot therefore realistically be expected to successfully supervise the implementation of regulations in municipalities when it does not sufficiently apply those same regulations itself. For this reason it is necessary to encourage citizen associations whose focus is on the environment, as well as on rule of law, public finances, and other relevant areas, along with the investigative media, to monitor the use of revenues from environmental protection fees.

More and more municipalities and cities are phasing out their environmental protection funds, with the explanation that fees are no longer earmarked. In 2019, such funds were abolished by a total of 22 local governments.

The majority of non-targeted spending is done by local self-governments which have the highest revenue from environmental protection fees (meaning that they have the most polluters). Instead of spending money to remedy the effects of pollution, however, they spend it for other purposes (in dinars):

1) Belgrade	3.157.405.014
2) Požarevac	1.413.480.608
3) Bor	605.090.692
4) Pančevo	551.408.398
5) Ub	336.307.924
6) Lajkovac	325.790.632
7) Pećinci	304.777.463



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