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Financing of the Environmental Protection at the Local Level: Relationship between Revenues and Expenditures

*The Policy brief is a part of analyses on the topic of financing of the environmental protection

The upcoming investments of at least €10 Billion in the environmental protection require the establishment of an effective system of financing of environmental protection, especially at the local level of governance.

Environment, Finance and Local Self-Government

Financial investments in the environmental protection are one of the biggest challenges for the Republic of Serbia in the European Union accession process. Official estimates from 2011¹ indicate that by 2030, the costs of application of the rules under Chapter 27 (Environmental Protection) will reach €10.6 Billion, mainly for protection against water pollution (€5.6 Billion), waste management (€2.8 Billion) and the industrial pollution (€1.3 Billion). Furthermore, according to more recent estimates², the required investments, considering only the capital investments, are around €10 Billion. Inclusion of the operational investments (infrastructure maintenance costs) will result in an even higher amount. Although more thorough analysis is still to be conducted regarding the total amount of

investments required for the environmental protection, existing estimates have already shown that the amount of upcoming investments is going to be enormously high.

The Screening report for Chapter 27 and European Commission's annual reports³ indicate that the EU recognizes the importance of building the appropriate financial capacity, that is, an effective financial system. In order to overcome the existing problems, it is necessary to promptly establish an efficient, effective and transparent system of financing of the environmental protection, with respect to all levels of governance. However, financing the environment at the local level deserves special attention given the scope of responsibilities that local governments have according to the domestic regulations⁴ (and related financial obligations⁵), insufficient capacities, as well as varying practices among them (taking into account the diversity and the number of municipalities and cities).

Considering the estimates that 0.4%⁶ (2011) and 0.25% (2014)⁷ of GDP in Serbia is allocated to the environmental protection, and that the countries that have joined the European Union in 2004 and 2007 for this purpose set aside around 1.5 - 2.5% of GDP annually⁸, it is clear that insufficient funds are assigned to the environment at this

1. National Environmental Approximation Strategy for the Republic of Serbia ("Official Gazette of the RS" 80/2011), Introduction, page 3
2. Status and Plans of Transposition and Implementation of the Acquis for Chapter 27 - Environment and Climate Change (Post-screening document), September 2015.
3. European Commission, Serbia 2016 Report, Chapter 27, page 88, Serbian translation
4. Especially the Law on Local Self-government of the Republic of Serbia ("Official Gazette of the Republic of Serbia", number 129/2007, 83/2014 and 101/2016) and the Law on Communal Activities ("Official Gazette of the Republic of Serbia", number 88/2011 and 104/2016) which assigns responsibilities to local self-governments in the field of purification of the polluted water, provision of drinking water and municipal waste management.
5. The experience of other ex-Yugoslavia countries, also, indicates the importance of the local self-governments and the fact that local self-governments bear around 35-60% of the national expenditures in this field. Source: Presentation "The role of the Local Self-Governments in the European Integration Process in the area of Environmental Protection", Siniša Mitrović, advisor of the President of the Chamber of Commerce and Industry of the Republic of Serbia, 2011.
6. National Environmental Approximation Strategy for the Republic of Serbia ("Official Gazette of the Republic of Serbia" 80/2011), Introduction, page 46.
7. According to the estimates of the experts in the Serbian Chamber of Commerce and Industry.
8. Presentation "The role of the local governments in the European integration process with respect to the environmental protection", Siniša Mitrović, advisor of the President of the Chamber of Commerce and Industry of the Republic of Serbia, 2011.
9. According to the data obtained for the purpose of this analysis, the total amount of budget revenues for the local self-governments, collected in the past three years from the environmental protection fees, equaled RSD 4,770,221,000 (2014) and 4,955,082,860 (2016).

moment⁹.

However, before the revenues dedicated to the environmental protection (problem on the revenue side) increase, it is necessary to ensure that the funds are spent appropriately (problem on the expenditure side), as a prerequisite for the effective use of both existing and future funds for environmental protection.

In this policy brief, the focus is on the identification of all expenditures recorded on the account of the local budget funds for the environmental protection¹⁰, the relationship between mentioned expenditures and local revenues from the environmental protection fees, and the potential reasons behind such a relationship. For that purpose, the data is obtained from the Treasury Office and on the basis of the documents from 145¹¹ local governments¹², and then processed.

Other topics will be covered in the following analyses¹³, including the question of whether and to what extent are the budget funds for environmental protection being used for financing the programs not related to the

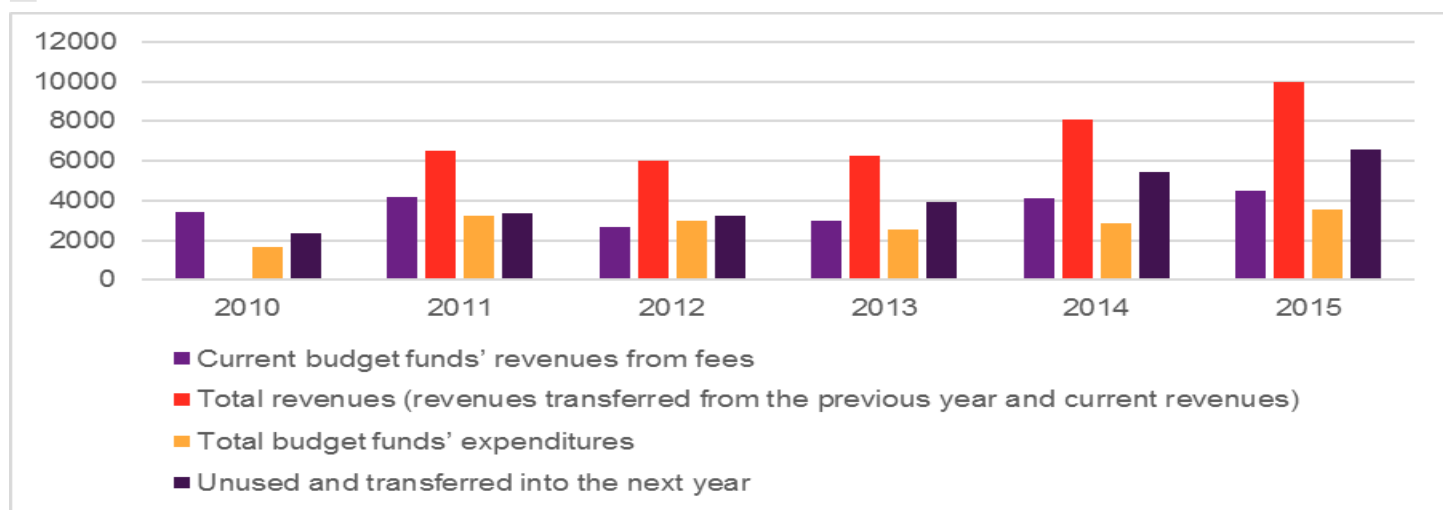
Local governments, through the budget funds for the environmental protection, use less funds than it is collected by means of dedicated fees.

environmental protection, together with the further recommendations in these areas.¹⁴

What are the key problems?

The graph shows the continuity of dynamics of local governments' revenues and expenditures over the past six years, as to allow one to understand the bigger picture regarding their relationship. According to the graph, a clear tendency of revenues to exceed expenditures could be noticed, as well as the fact that the amount of unused funds has increased every year. This dynamic of revenues and expenditures will be explained in more detail later in the text.

The graph. The relationship between dedicated revenues and expenditures within the local budget funds for the protection of the



- The Law on the Environmental Protection ("Official Gazette of the RS" 135/2004, 36/2009 and 14/2016) in the Article 200, part 1 and 3, prescribes that the resources from the budget fund should be used for financing the environmental improvement, on the basis of the established programme for the use of the funds set by the competent unit within the local self-government, with the previous consent of the Ministry. Article 100, part 4, prescribes that the report on the use of the resources from the budget fund should be provided by the local self-government units to the Ministry, the latest by the 31st of March next year for the previous year.
- All local self-governments from the Central Serbia and the Autonomous Province of Vojvodina are included, in accordance with the Law on the Territorial Organization ("Official Gazette of the RS", number 129/2007).
- The data about revenues is obtained from the Treasury Office for the period 2010-2015. The data about expenditures is obtained, primarily, from the final budget accounts of the local governments for the period 2010-2015 (in case of 2015, 139 local governments have been taken into account), and to a lower degree (case of 15 local governments), from reports on the use of budget fund resources, that is, the Plan and Execution of the expenditures for the period 2013-2015, for the cases where there was impossible to check the final accounts.
- Within the same series of analysis on the topic of financing the environmental protection at the local level.
- The obligations of financing environmental protection at the republic and local level were prescribed in 2004, but only after the amendments to the Law on Environmental Protection from 2009 and after the introduction of the obligation to establish a budget fund, the broad implementation of the Law commenced.

Furthermore, from the Table 1 it could be observed that, in five out of the last six years, expenditures have been lower than the current revenues.¹⁵ Moreover, the Table 2

Table 1. Total current revenues and expenditures within local budget funds for the environmental protection.

Year	Current revenues from fees, for local self-governments taken all together (RSD)	Budget funds' expenditures for local self-governments taken all together (RSD)
2010	3.430.671.473	1.660.283.300
2011	4.163.808.015	3.234.997.555
2012	2.645.766.582	2.971.895.586
2013	3.016.318.383	2.563.212.498
2014	4.111.880.625	2.881.001.790
2015	4.530.621.775	3.552.265.989

Table 2. The number and a percentage of local governments that had lower expenditures than the amount of current revenues from the fees for the environmental protection in a given year.

Year	The number of local self-governments	The percentage of the total number of local self-governments
2010	127	87,6%
2011	121	83,5%
2012	85	58,6%
2013	75	51,7%
2014	97	66,9%
2015	89	62,7% ¹⁶

shows that a large number of local self-governments have spent less money through the budget funds than they have collected from the fees in the period from 2010 to 2015.

At the beginning of the above mentioned period, that was the case in more than 120 local governments. A lower number of local governments has been experienced in the following years, as a result of a decrease in the dedicated revenues and a lower and more easily approachable, even with less executed expenses¹⁷, "limit" for a majority of municipalities and towns. In that period most of the local governments have used the funds carried over from the previous years, or have destined funds from other, undedicated revenues. At the end of the period, there is again an increase in the number of local governments with more revenues than expenditures, as a result of a gradual rise in the amount obtained through the special reimbursement for

There is an increase in the total amount of unused resources for the environmental protection that is being transferred, on the account of the local budget funds, into the next year.

environmental protection and promotion (that is prescribed by the municipality and town Assembly, and that represents a 100% revenue for the local budget), as well as the increase in the number of municipalities and towns that have this kind of reimbursement.

Table 3 shows that there has been an increase in the

Table 3. Local governments that have transferred unused funds.

Year	The number of local self-governments	The percentage of the total number of local self-governments	The amount of transferred funds for local self-governments taken all together (RSD)
2013	111	76,5%	3.956.824.037
2014	123	84,8%	5.428.649.758
2015	116	81,7% ¹⁸	6.578.568.006

15. Only in 2012 was the amount of expenditures greater than the amount of revenues, not because of the increased expenditures, but because of a decrease in revenues - due to the abolishment of the motor vehicles fee and the cease in the fees for the emission of the polluted substances in three local self-governments with the highest revenues with respect to this fee.

16. For 142 local self-governments.

17. The abolishment of a fee for motor vehicles has changed the structure of the revenues significantly. This fee has accounted for 70-100% of the total amount of revenues for the environmental protection in 52 local self-governments in 2011. Consequently, after its abolishment many local self-governments have lost their dedicated revenues in total, so even the lowest amount of expenditures in the budget fund was enough to use the total amount of revenues. This is the reason behind the decrease in the number of municipalities and towns that spend more money for the environmental protection than they collect through fees.

18. For 142 local self-governments.

Instead of assuring the dedicated use of funds through stricter control, the regulations have been changed so that using environmental protection fees for other purposes is no longer against the law. Considering the longstanding practice that, contrary to the legal obligations that existed at the time, allowed the use of less funds for the environmental protection than the amount of income from fees, there is no significant reason for municipalities and cities not to do the same now that the purpose-specific (earmarked) character of the fee has been abolished.

Therefore, the said amendments only grant a legally acceptable possibility to local self-governments to allocate funds from the environmental protection fees to other users and spend them for activities and programmes that do not belong to the area of environment. The following examples show what can happen in the coming period with local budget funds and local financing of environmental protection due to the aforementioned amendments to the Budget System Law.

Amendments to the Budget System Law in 2015 “made legal” the possibility of local governments to allocate funds from fees for environmental protection to other users and to other unrelated activities.

***Changes in the budget – at the expense to the environment:** In the town of Vršac, according to the Decision on the Budget for 2016, RSD 70 Million of expenditures in the Budget Fund have been planned for the environmental protection. However, in the Decision on the Second Budget for 2016²⁰, only RSD 11.8 Million²¹ have been designated to the same purpose. Furthermore, in the Budget Decision for 2017, only RSD

12 Million have been planned in the Environmental Protection Fund, indicating the possible continuity of the aforementioned practice.

***No money - No Fund:** In November 2013, the City Council of Sremska Mitrovica suspended a Conclusion on the establishment of the Budget Fund for Environmental Protection. In the explanation, it was stated that the reason behind such a move was the lack of funding sources. The town of Sremska Mitrovica has not adopted a local decision on the environmental protection fees, so there has been no income on that basis either. Furthermore, non-dedicated reserves from other sources were not allocated for the needs of the Fund, and revenues from the Republic fees in 2014 and 2015 were approximately RSD 600,000 a year. Therefore, Sremska Mitrovica is the first and so far the only local government in Serbia that formally abolished its budget Environmental Protection Fund due to the lack of funds.

***No money - No programme:** During the research, it was identified that several more municipalities (Bogatić, Veliko Gradište i Lučani) reported in their official response to the research team that, due to the lack of funding sources, they did neither create nor adopt a programme for the utilization of funds under the Budget Fund for environmental protection.

As Local Budget Funds have been influenced by the amendments to the Budget System Law and by the abolition of the purposeful character of the environmental protection fees, by the 15th of June 2017 it will be clear whether the municipalities have taken the opportunity to reduce their funds and whether there are other municipalities and towns that have abolished their Funds. In fact, the 15th of June, 2017 is the day by which the local governments have a legal obligation to adopt the final account of the Budget for 2016. Considering the aforementioned examples, it is difficult to have any optimistic expectations regarding these issues.

19. Amendments of the Budget System Law (“Official Gazette” 103/2015), Article 2, item 15, dedicated funds contain only donations, credits and self-contributions.

20. Published in the “Official journal of the town of Vršac” number 16/2015, page 28, function 500.

21. Published in the “Official journal of the town of Vršac” number 18/2016, page 22, function 500.

22. It is worth mentioning that in 2016 Budget Fund had resources of RSD 83.4 Million at its disposal, transferred from the 2015, and RSD 61.2 Million of current revenues in 2016. Therefore, it is obvious that the town of Vršac exploited this opportunity and used RSD 70 Million that were primarily designated for the environmental protection.

The continuous practice of raising more funds than it is actually used can be considered not only as an improper attitude towards citizens and the economy, but also as a failure to allocate resources appropriately for the environmental protection purposes.

Next steps

Taking into consideration the presented data and the analysis, it can be concluded that there is a continuous malpractice to raise more funds than it is actually used for the environmental protection.

Therefore, the existing budget revenues at all levels of governance are insufficient to respond to the needs, problems and requirements of the environmental protection, given the financial projections of the necessary investments in the upcoming period (see the introductory chapter).

The existence of the possibility to use even such inadequate revenues, as non-dedicated ones, makes the environmental finance system insufficiently effective in terms of preserving and improving the conditions in the environment, that is, it diminishes Serbia's ability to provide the financial resources necessary for the successful compliance with the EU standards.

By checking the final accounts, a significant number of local self-governments have been detected that decide on the expenditures from Budget Funds only based on the expected current income from fees, without adding to it the funds transferred from the previous year. Consequently, this practice indicates a significant possibility that funds intended for environmental protection were unintentionally used in the same year when they were generated as income, for activities and users that are not related to the environmental protection.

Therefore, keeping in mind the presented data and the analysis carried out until this point, the following suggestions could be observed:

- It is clear that the effective and sustainable financing of environmental protection activities is linked to the dedicated use of funds from the environmental protection fees at the local level. Therefore, it is important that the amendments to the Budget System Law return the purpose-specific (earmarked) character to the revenues from the environmental protection fees.
- It is necessary to create measures that will be used in cases when local self-governments generate less expenditures than the amount of assigned revenues from fees for the environmental protection programmes. Some possible solutions could be limitations in the participation on the tenders of the competent Ministry, as well as the temporary suspension of financial transfers.



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23. In the following analyses, programmes for the use of budget funds and reports on the use of the funds will be the subject of a thorough analysis, thus, this issue will be processed in more detail at the later stage.

Literature:

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- Regulation on Criteria for the Calculation of Packaging or Packed Products Fees and Exemption from Fee Payment, Fee Payers, Fee Amount and the Manner of Fee Calculation and Payment (08/2010).
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- Regulation on Products that become specific Waste streams after use, on the Daily log form for records of the quantity and Type of products produced and imported, and on the Annual report, on the Method and time frame for submitting the annual report, on the Fee payers, the Calculation criteria, the Amount and the method for the calculation and payment of the fee ("Official Gazette of the RS" 54/10, 86/11, 15/12 and 03/14).
- Regulation on Putting under Control the Use and Trade of Wild Flora and Fauna ("Official Gazette of the RS" 22/2007, 38/2008, 9/2010).
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