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IMPROVING PUBLIC FINANCIAL MANAGEMENT FOR THE GREEN TRANSITION

PROGRAM FOR RESULTS

(P175655)

Environmental and Social systems assessment (ESSA)

FINAL REPORT

**January 2023**

**Prepared by the World Bank**

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|  | ABBREVIATIONS AND ACRONYMS |
| AfD | (Agence Française de Développement) French Development Agency |
| CE | Citizen Engagement |
| CSO | Civil society organisation |
| DLI | Disbursement Linked Indicator |
| DLR | Disbursement Linked Result |
| DICEI | Department for International Cooperation and European Integration |
| E&S | Environmental and Social |
| EHS | Environmental Health and Safety |
| ESSA | Environmental and Social Systems Assessment |
| EU | European Union |
| ESCP | Environmental and Social Commitment Plan |
| ESS | Environmental and Social Standard |
| ESMP | Environmental and Social Management Plan |
| ESMS | Environmental and Social Management System |
| GIIP | Good International Industry Practice |
| GoS | Government of Serbia |
| GHG | Green House Gas |
| GRM | Grievance Redress Mechanism |
| IPF | Investment Project Financing |
| IDP | Internally Displaced Persons |
| KPI | Key Performance Indicators |
| LMP | Labour management Procedure |
| LGBT | Lesbian, Gay, Bisexual, Transgender |
| LSG | Local Self-Government |
| MoEP | Ministry of Environmental Protection |
| MoME | Ministry of Mining and Energy |
| MoCTI | Ministry of Construction, Transport and Infrastructure |
| MoF | Ministry of Finance |
| MRV | Measurement Reporting and Verification |
| NAPA | National Academy for Public Administration |
| OHS | Occupational Health and Safety |
| PAP | Program Action Plan |
| PDO | Project Development Objective |
| PEF | Program Expenditure Framework |
| PforR | Program-for-Results |
| PIM | Public Investment Management |
| PFM | Public Financial Management |
| PPS | Public Policy Secretariat |
| PFMRP | Public Financial management reform Program |
| POM | Program Operational Manual |
| PCU | Program Coordination Unit |
| PSC | Program Steering Committee |
| RA | Result Area |
| RER | Renewables and Environmental Regulatory Institute |
| SEP | Stakeholder Engagement Plan |
| SE | Stakeholder Engagement |
| ToR | Terms of Reference |
| TA | Technical Assistance |
| WB | World Bank |
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# EXECUTIVE SUMMARY

The World Bank prepared this Environmental and Social Systems Assessment (ESSA) in collaboration with the Government of Serbia as part of the preparation of “Improving Public Financial Management for Green Transition Program-for-Results (PforR)” financing. Through this PforR, the Bank intends to support the implementation of Serbia’s Public Financial Management (PFM) for the Green Transition.

**The ESSA examines applicable environmental and social management systems (ESMS) to assess their compliance with the** [**Bank Policy Program-For-Results Financing**](https://ppfdocuments.azureedge.net/f9e36a3b-72e0-4edb-9fdc-96bf555c7208.pdf)**.** It aims to ensure that the Program’s environmental and social risks will be managed adequately and that the Program complies with the basic principles of sustainable development. Paragraph 9 of the [Bank Policy Program-For-Results Financing](https://ppfdocuments.azureedge.net/f9e36a3b-72e0-4edb-9fdc-96bf555c7208.pdf) describes the core principles of environmental and social management that may be considered as relevant or applicable in the ESSA. These core principles are as follows:

* promote environmental and social sustainability in the PforR design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the PforR’s environmental and social impacts;
* avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the PforR;
* protect public safety and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the PforR; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the PforR; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards;
* manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards;
* give due consideration to the cultural appropriateness of, and equitable access to, PforR benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups; and
* avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

**The ESSA evaluates the compatibility of the Program’s systems with the core principles on two basic levels: (a) the systems as defined by laws, regulations, and procedures (the ‘system as defined’), and (b) the institutional capacity of implementation entities under the Program to effectively implement the system (the ‘system as it is applied in practice’)**. It identifies and analyses the differences between the national systems and the core principles that apply to the Program on the two levels indicated above.

## **Approach for the ESSA**

The preparation of the ESSA and the development of measures to strengthen the ESMS have benefited from various desk-based reviews and consultative processes with the main stakeholders:

**Review.** The review focused on national legislation and other relevant regulations and policies in the areas of social and environmental risk management, information disclosure, stakeholder and citizen engagement, equal opportunity and non-discrimination, and environment, with a special focus on identified environmental and social aspects relevant to the Program. These also included review of publicly available reports and relevant Bank studies addressing access for vulnerable and disadvantaged groups to services supported, stakeholder engagement practices and existing grievance redress mechanisms (GRMs) in implementing agencies.

**Initial stakeholder consultation meetings.** To develop a better understanding of implementation practices, procedures, standards, and the approach for this Program, in the period from October to December 2022, the Bank team carried out meetings with various stakeholders, including technical staff in the Ministry of Finance (MoF), and the Ministry of Environmental Protection (MoEP) as well as representatives of Public Policy Secretariat (PPS), and civil society organisations (Belgrade Open School, Kolacija 27 ,CEP, Transparency International Serbia, and Renewables and Environmental Regulatory Institute (RERI)). The full list of stakeholders consulted during the Program preparation is provided in Annex 3. These initial stakeholder consultation meetings informed key ESSA findings, contributed to formulating the ESSA Program Action Plan, and impacted the design of the Program.

**Formal consultations**. The draft ESSA was disclosed in English on January 10, 2023, on the Bank website, and on January 16, on the MoF website. Public comments wer solicited during the period lasting through January 23,2023. The consultations meeting on the draft ESSA report with key stakeholders was held on January 19. Observations from the meeting are incorporated into the final ESSA report. The complete list of participants and a summary of their comments will be included in Annex 3 and 4. The final ESSA report is disclosed in English and Serbian languages on the external website of the World Bank and the Ministry of Finance (MoF) in Serbia.

## **Program Description**

The government of the Republic of Serbia (GoS) and the World Bank are engaged in the preparation and development of new PfoR Operation (hereinafter “the Program”) with and aim to support GoS to upscale the current Public Financial Management (PFM) and Public Investment Management (PIM) systems towards well-targeted and efficient use of public funds to ensure public resources contribute to green transition. This PforR supports addressing selected critical gaps and weaknesses in current PFM and PIM systems to achieve key desired outcomes: *a) Improved fiscal resilience, transparency, and spending effectiveness b)* Greening Serbia’s expenditure cycle and developing its greenhouse gas (GHG) monitoring, reporting and verification.

### **Investment Project Financing (IPF) Component of the Program**

**The current Program has a hybrid form that combines two financial instruments of the World Bank: PfoR and Investment Project Financing (IPF). The IPF component will fund technical assistance (TA) for direct hand-holding support to achieve agreed results in the two result areas.** Through a range of capacity-building measures (such as training, mentoring, on-the-job learning, peer learning from other countries and the development of manuals and guidelines), TA will address change and Program management, stakeholder engagement, as well as possible investments in hardware and software elements needed to implement the GHG MRV system. In addition to the environmental and social measures to be included in the Action Plan of the PforR component of the Program, the IPF-funded component envisages the introduction of good international industry practices and tools for managing social and environmental risks for the Program duration. This includes the development of several important Environmental and Social (E&S) plans/procedures including the Stakeholder Engagement Plan (SEP), Labor Management Procedures (LMP) and, in the case of any construction works, Environmental and Social Management Plans/Checklists. These instruments will be agreed upon in the Environmental and Social Commitment Plan (ESCP) and key requirements summarised in the Program Operational Manual (POM).

### **Implementation Arrangements**

The institutions involved in the Program and their roles are described below. The MoF will oversee overall Program implementation. The MoF, through the Department for International Cooperation and European Integration (DICEI), will be the primary implementing agency and will coordinate program implementation with other stakeholder institutions. The DICEI will collect information about the progress toward the Disbursement Linked Indicators (DLIs) from institutions responsible for specific Disbursement Linked Results (DLRs) as well as from institutions’ in-year and annual budget execution reports, which are included in the Program Expenditure Framework (PEF). The DICEI will communicate with the World Bank and the AfD about achieved DLRs and deliver budget execution reports related to the PEF.

A Program Steering Committee (PSC) will be established to guide the implementation of the program which will also serve to intensify inter-ministerial coordination on the implementation mechanisms for the Green Agenda and to build a closer connection between core institutions (MoF, PPS, PPO) and relevant sector ministries. The PSC will meet every half year (and more frequently if needed) to discuss and analyze progress toward achieving the DLIs and provide advice on how to resolve bottlenecks and accelerate implementation. The PSC will be chaired by the state secretary of the MoF and will include representatives of the MoF; MoEP; Ministry of Construction, Transport and Infrastructure; Public Policy Secretariat; Public Procurement Office; Ministry of Mining and Energy. The World Bank and AfD will be observers. An Inter-ministerial Working Group for Green Budget Tagging has already been established for the preparation of the PforR and the DPO, and the PSC is expected to have a similar composition and be put in place for the implementation period, as well as the preparation of the second DPO on the green transition. One of the tasks of the PSC will be to ensure consistency in the green criteria used across planning, budgeting, capital project and procurement elements of the public expenditure cycle; as well as to define appropriate expenditure efficiency criteria – targeting life cycle rather than initial investment costs only and defining benefits in a way that includes critical green elements such as circular use of resources and reduction in waste. The PSC will also guide and ensure adequate engagement with non-government stakeholders, including civil society organisations (CSOs) and the private sector. A Program Coordination Unit (PCU) within DICEI will be assigned with responsibilities related to the day-to-day management of the program.

Other institutions responsible for monitoring the implementation of specific DLRs **include the PPS, MoF’s Budget Department, MoF’s Fiscal Risk Monitoring Department, Public Procurement Office, the Public Property Directorate, and the Ministry of Environmental Protection.** These institutions will monitor program implementation and collect evidence about the status of DLIs, which they then will deliver to the DICEI.

## **Program Environmental and Social Effects**

The overall objective of Program-financed activities is to make the PFM system in Serbia more efficient, inclusive, and green-oriented. The Program will not fund any activities involving high or substantial environmental or social risks, such as extensive land expropriation, relocation of large numbers of people, heavy pollution, significant transformation of the natural environment, or activities that pose a threat to the health and safety of workers and communities. The Program is expected to have many positive environmental and social effects in the areas of government accountability, transparency, inclusiveness, and green growth.

The expenditure framework envisages the provision of subsidies to public and private and specialised services to incentivise preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of environment-friendly cars. Current environmental legislation and procedures are sufficient for regulating the described activities.

These risks may be - mitigated through public calls with transparent award criteria, publication of; conditions, volume of funds, deadlines and awarding procedure, then by publishing the preliminary and final lists of subsidy beneficiaries with explanations that will be publishedat MoEP web site. Furthermore, activities related to waste management, although aimed at recycling and other improvements, may cause harm to human and environmental health if undertaken improperly. Adequacy of the national regulatory framework and the accumulated national experience suggest that this risk is insignificant. However, there are risks related to the adequacy of consultation and disclosure process and the potential of excluding vulnerable and disadvantaged groups from the Program. For that reason, the Program’s social risk is estimated as moderate and environmental risk is low.

### **Main Environmental Effects of the Program**

The Program is overall highly beneficial from climate and environmental perspectives. Achieving the results defined through DLIs will significantly enhance Serbia’s public sector focus and action on climate change across public investment planning, budgeting, and procurement cycle. DLI 8 directly targets and supports monitoring, reporting, and verification of GHG emissions. Other DLIs will help with improving other climate aspects, namely: (i) integration of green and climate aspects into the costed strategies and policies; (ii) implementation of green budget tagging to inform resource allocation decisions and budget execution, with support by the development of tagging methodology that supports green and climate policy needs, training of line ministries, and other technical support for implementation; and (iii) mainstreaming of green and climate criteria into public procurement by recognizing goods, services, and works with a reduced environmental impact throughout their life cycle. Mainstreaming of green criteria is expected to trigger the implementation of environmental best practices which will lead to best utilization of resources, such as energy, water and waste management, adaptation to climate change, etc. In addition, through the funding for renovation of buildings for improvement of energy efficiency of buildings, the Program will contribute to the decrease of GHG emissions.

The Program also includes recurrent spending that targets Green Agenda results such as thorough subsidies under MoEP’s budget related to incentives for preservation of nature, recycling of materials and waste management, and purchase of environment-friendly cars. There are two groups of subsidies, relating to public institutions and private entities. MoEP has the established eligibility criteria and procedures for approving and monitoring of subsidies. The procedures are robust and complied with in practice. The procedures related to subsidies are regulated by relevant bylaws[[1]](#footnote-2) and further accompanying guidance and templates. The process is competitive and based on public calls for applications. MoEP will be responsible for this activity in the framework of DLI6. These activities are not different form the regular duties of MoEP. In 2021/2022, within the framework of its Green Agenda Program, MoEP disbursed subsidies for reuse of waste[[2]](#footnote-3), for the illegal waste disposal prevention and remediation, for protection of soil as natural resources, and for protection of spatial diversity – afforestation. The efficiency of disbursement is more than 98% leading to the conclusion that MoEP has sufficient capacity to manage the subsidies. MoEP inspectorate supervises and controls waste reuse and quantities and issue verification document for the purpose of subsidies. The database of the Agency for Environmental Protection provides additional possibility of control over particular streams of waste.

The Program will not create an additional environmental footprint as it supports neither construction of new infrastructure nor the extraction of natural resources. It does not include any activities that may lead to heavy emissions or to generation and discharge of large volumes of waste.

Serbia is an EU assession country and its environmental regulations, to some extent, are aligned with the EU. Considering all above mentioned the overall environmental risk is assessed as Low.

### **Main Social Effects of the Program**

Program activities are targeted at enhancing fiscal transparency as well as green and gender budget tagging and - if combined with adequate support in public outreach and citizen engagement on budgets - will provide the opportunity for citizens and investors to gain improved insight into the green budget policy and actions being implemented. These actions will form the base for improved dialogue between the Government and citizens.

The main social risks associated with the Program are related to **ESSA Core principle 1**, which promotes informed decision-making with regard to the Program’s E&S effects and **Core principle 5** with special regard to vulnerable and disadvantaged groups’ coverage by stakeholder engagement activities.

There is a possibility that in the dialogue on public finance management reform and green transformation vulnerable and disadvantaged groups may not be adequately targeted, the model of engagement may not be aligned with their needs, and they may be excluded from the dialogue. The vulnerable and disadvantaged groups may include persons from rural or high mountainous regions, Internally Displaced Persons (IDPs), people with disabilities and special needs, Roma, women, and LGBT population, ethnic/linguistic/religious minorities, those without internet/device connections, and the poor, especially those persons or families who have lower education levels, nutrition, and health outcomes.

Low capacity of the Program stakeholders for for the implementation of customized campaigns in the field with the aim of providing sufficientinformation in a broadly understandable manner, as well as a lack of functional grievance redress systems (at the national and local level), are assessed as key barriers to effective stakeholder engagement.

Furthermore, the implementation of the Program activities will impose an additional workload on the public administration staff causing potential workplace burnout. This is particularly relevant for those ministries and implementing agencies that are currently understaffed. To mitigate this potential negative impact, the public administration team will be supported by sector specialists who will work under IPF/TA component and will ensure the efficient execution of tasks.

The Program will not finance any activities that will require the acquisition or conversion of land or the restriction of access to resources. Considering the nature of the Program, the complexity of the intersectoral coordination process, possible exclusion related risks and existing capacities in social risk management, the overall social risk of the Program is assessed as moderate.

## **Environmental and Social Systems Assessment**

### **Environmental Systems Assessment**

Serbia’s environmental management system is aligned with core European and international values, such as the sustainable use of natural resources, protection of biodiversity and habitats supporting it, equitable access to ecosystem services, prevention of deforestation and desertification, curtailing of environmental pollution from toxic substances and plastics, mitigating climate change and adapting to its impacts, and embracing digitalization and advanced technologies for low-emission green development. Serbia is a signatory to most international and regional environmental treaties, including the Aarhus convention on Access to Information, Public Participation in Decision-Making.

When it comes to the subsidies under MoEP’s budget related to incentives for preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of ecologically acceptable cars, current environmental legislation and procedures are appropriate for this type of project. Resulting from the size and type of disbursed funds the conclusion is that MoEP has sufficient capacity to implement this Program’s activities. The application forms include sufficient data for environmental screening, monitoring, supervision, ownership, size and type of legal entities, inspection supervision and exclusion criteria on the ground of non-compliance with environmental regulations which is sufficient to award and monitor the subsidies disbursement. Proper information of the public is ensured through public calls with transparent awarding criteria, publishing of preliminary and final lists with explanatory notes, all of which are published at MoEP web site. OHS risks related to workers handling waste in recycling process are covered by the Law on Occupational Health and Safety.

### **Social Systems Assessment**

Serbia has not yet established an integrated policy and legislation regarding the assessment and management of social risks related to investment projects. Consequently, there is no single competent institution that would systematically monitor all aspects of social impacts and risks associated with policy reform processes or specific investment projects. Instead, there is a general regulatory framework and institutions charged with monitoring various aspects of potential social risk. In this regard, there are no differentiated measures to ensure that the negative impacts do not fall disproportionately on the vulnerable and disadvantaged groups, nor that they share the development benefits and opportunities arising from the project. Instead, Serbia relies on social laws and policies to guide and prevent potential social impacts in proposed projects. The existing regulations do not explicitly cover the access of vulnerable and disadvantaged groups to grievance mechanisms or public consultations. Furthermore, there is no mechanism for monitoring the effects of the policy reform on vulnerable groups, to understand to what extent have the outcomes generated been relevant to improvements in the quality-of-service delivery. Serbia passed numerous laws, strategies, and guidelines among which the most important are the Law on the Planning System of the Republic of Serbia, (the Regulation on the Methodology of Public Policy Management,[[3]](#footnote-4)) the bylaw to the Law on Public Administration, (the Rulebook on the Guidelines for Good Practice for Public Participation in the Preparation of Draft Laws and Other Regulations and Acts),[[4]](#footnote-5) the Law on State Administration, and the Law on Local Self Government. In Serbia, access to public information is guaranteed in the Constitution and protected by the Law on Free Access to Information of Public Importance. All these regulations prescribe access to information and the mandatory implementation of consultations at all stages of the preparation of regulations and public documents.

Considerable progress in the existing practice was achieved by the adoption of the Conclusion on the adoption of the Guidelines for the inclusion of civil society organizations in working groups for the preparation of proposals for public policy documents and drafts, i.e. proposals for regulations ("Official Gazette of the RS", No. 8/20 and 107/21), which includes the implementation of a public invitation to civil society organizations for participation in working groups for drafting DJP and regulations, but it is also used in the election of civil society representatives in various national advisory bodies. The application of these mechanisms is increasing year by year, and in 2022 alone, 70 representatives of CSOs were included in various working groups in this way.

Also, the Ministry of Human and Minority Rights and Social Dialogue, in cooperation with the OHCHR in Serbia, the academic community and civil society organizations, developed guidelines for the implementation of the principles of Agenda 2030 "Leave no one left behind", which imply that in the planning, drafting and implementation of laws and public policy documents pay particular attention to groups that are often invisible (<http://minljmpdd-minljmpdd.apps.wh.gov.rs/publikacije.php>), which can be a guide in the development of programs in consultation with vulnerable groups.

While the national legislation may be considered adequate, there are several important gaps, particularly regarding stakeholder targeting, ensuring the participation of vulnerable and disadvantaged groups (which requires tailored outreach efforts) and having functional grievance redress systems.

The identified gaps relate to **ESSA Core Principle#1** with special regard to promoting informed decision-making relating to a Program’s E&S effects **and Core Principle #5** with special regard to vulnerable and disadvantaged groups’ access to and inclusion in Program activities. After comparing the current practice of the MoF and MoEP in disclosing information, engaging stakeholders and including vulnerable groups, with ESSA international good practice and Core Principles No. 1 and No. 5, the following can be concluded: (i) According to the topic of interest, the existing system used for stakeholder engagement should improve the method of targeting and involving a wider range of citizens and/or civil society organizations and in particular vulnerable groups;(ii) Engagement formats should be adapted to different categories of possible stakeholders; (iii) Published information should be sufficiently transparent, regularly updated timely disclosed and comprehensive; (iv) Information should be easily accessible and presented in a user-friendly manner; (v) Functional GRM and other engagement mechanisms to ensure two-way communication should be established; (vi) It is necessary to demonstrate and document the linkage and complementarity between different government platforms that focus on mapping services and measuring citizen satisfaction; (vii) Monitoring indicators on the effect of planned PFM Reform on vulnerable populations, women, and people with disability should be developed; (viii) The system should ensure regular monitoring and reporting on stakeholder engagement activities; and (ix) In order to demonstrate government accountability and increase public trust, all efforts invested in stakeholder engagement and improved transparency and accountability should be promoted through various information channels.

To some extent, the Program addresses fiscal transparency, gender, and green budget reporting but it is necessary to further strengthen existing capacities for effective consultations with interested parties, especially for the inclusion of vulnerable citizens. This can be implemented through the creation of a stakeholder plan, and the involvement of Stakeholder Engagement (SE), Citizen Engagement (CE) and Communication experts. Although MF’s DICEI has adequate coordination expertise, it may face challenges in ensuring sufficient human resources are available for all program activities. Due to the expected working overload to be imposed on the PCU staff, and to support the Ministry of Finance in carrying out activities through which the Program would, among other things, achieve a good social impact, it would be useful to engage qualified experts in social, communications and citizen engagement сецтор

The current capacity of other implementing agencies to manage social risks varies depending on their previous exposure to the programs supported by the World Bank and other donors. Responsibilities for social considerations in project preparation and management are not specified, and the entities do not have any in-house social capacity. Consequently, organizational capacities to effectively manage citizen engagement and to ensure the inclusion of vulnerable groups in the consultative process are limited.

The common characteristics of all implementing agencies' capacity for managing social systems are: (i) lack of staff to sufficiently cover the activities of the Program in a timely and quality manner; and (ii) lack of internal expertise among staff, especially in terms of managing the social dimensions of the Program.

## **ESSA Program Action Plan**

This ESSA identified gaps between the existing ESMS and international good practice, which the Program will fill by supporting specific measures to enhance the performance of the ESMS. These measures will be implemented through the actions summarised in the Table 1.

Table 1. Program Action Plan and measures included in IPF/ESCP

| **Action Description** | **Timeline** | **Responsibility** | **Measures included in ESCP/IPF component** | **Completion measures / verification** |
| --- | --- | --- | --- | --- |
| Prepare POM | Draft POM prepared prior to Negotiations | MoF | Included in the PfoR Action Plan | POM reviewed and accepted by the Bank |
| Appoint, on a part time basis, qualified environmental, social, CE, and communication specialists, to strengthen capacity of MoF and MoEP to mage potential environmental and social effect of the Program | No later than 120 days after the Loan Agreement Effective Date, | MoF PCU | Included in ESCP | ToRs drafted and approved. Appointment letters issued or employment contracts with environmental, social and CE/ communication specialist(s) signed. |
| Establish Program level GRM and instruct participating government institutions to report concerns related to the Program activities to PCU who will keep and manage a central grievance log. | Operationalize GRM no later than 30 days after the Effective Date. | MoF PCU Social Specialist | Included in ESCP | Program Operational Manual includes the provisions in GRM.  Grievance contact person assigned, the information on the presence of the GRM and how to submit GRM published on MoF official website. |
| Adopt and implement Stakeholder Engagement Plan (SEP) with elements of communication plan to clearly define the main stakeholders and adapt engagement communication channels and methods to specific needs of each stakeholder group. | Prepare the document no later than 30 days after the Effective Date and implement throughout the Program | MoF PCU Social Specialist | Included in ESCP | The main provisions of SEP integrated in the POM |
| Upgrade existing communication formats and channels to:  a) disclose relevant information in a timely and user-friendly manner  b) accommodate the needs of vulnerable groups (example visually impaired person)  c) collect beneficiary feedback on green investments. | No later than 10 months after the Effective Date | MoF PCU Communication Expert | Not included in ESCP  Included in the PfoR Action Plan | Existing CE platforms contain dedicated sections on green investments and are technically equipped for accommodating the needs of vulnerable groups. |
| Use Technical Assistance under IPF to provide additional training on SE/CE and communication including with vulnerable groups. | During Program implementation | MoF PCU CE and Communication specialist through IPF /TA | Not included in ESCP  Included in the PfoR Action plan. | Training reports |

Communities and individuals who believe that they are adversely affected as a result of a Bank-supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank’s non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. Information on how to submit complaints to the World Bank’s corporate GRS is available at http://www.worldbank.org/GRS. Information on how to submit complaints to the World Bank Inspection Panel is available at www.inspectionpanel.org.

# **INTRODUCTION**

## **Purpose of the ESSA**

This Environmental and Social Systems Assessment (ESSA) has been prepared by the World Bank as part of the preparation of “Improving Public Financial Management for Green Transition Program-for-Results (PforR)” financing. The ESSA aims to assess potential environmental and social risks and impacts of the Program, to ensure these will be managed adequately, and that the Program complies with the basic principles of sustainable development. The PforR Program and relevant government systems were assessed against the following core environmental and social principles of Bank Policy for PforRs (Paragraph 9 of the [Bank Policy Program-For-Results Financing](https://ppfdocuments.azureedge.net/f9e36a3b-72e0-4edb-9fdc-96bf555c7208.pdf)):

* promote environmental and social sustainability in the PforR Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the PforR Program’s environmental and social impacts.
* avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the PforR Program;
* protect public safety and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the PforR Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the PforR Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.
* manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.
* give due consideration to the cultural appropriateness of, and equitable access to, PforR operation benefits, giving special attention to the rights and interests of the Indigenous Peoples and the needs or concerns of vulnerable groups; and
* avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

## **Methodology**

The ESSA assesses to what degree the relevant Program’s activities meet the following core environmental and social principles stated in the Paragraph 9 of the [Bank Policy Program-For-Results Financing](https://ppfdocuments.azureedge.net/f9e36a3b-72e0-4edb-9fdc-96bf555c7208.pdf).

The overall assessment comprised a) initial screening and b) full assessment. The initial screening phase was used as a two-step process to determine whether from an E&S perspective the proposed program is suitable and eligible for PforR financing.

The assessment was prepared by Bank E&S specialists and consultants through a combination of reviews of existing program materials and the technical literature (published studies; media reports; web-based information, assessments carried out in the context of other Bank-supported activities) assessments undertaken by other development agencies associated with the Program; or another relevant national, regional, or sectoral assessments or analyses and interviews with government staff, and consultations with key stakeholders and experts.

The findings of the assessment were used to formulate an overall set of key measures to improve the environmental and social management outcomes of the Program. The findings, conclusions, and opinions expressed in the ESSA document are those of the Bank. The recommendations contained in the draft analysis were further discussed with and agreed to by the Borrower’s counterparts in December and will be finalised in January 2023.

The preparation of the ESSA and the development of measures to strengthen the ESMS have benefited from various desk-based reviews and consultative processes, with main project stakeholders:

**Review**. The review focused on national legislation and other relevant regulations and policies in the areas of equal opportunity and non-discrimination, education, health, social protection, and environment, with a special focus on identified environmental and social aspects relevant to the Program. These included social inclusion, coverage of identified vulnerable and disadvantaged groups by relevant national laws and challenges in the implementation of these laws, access for vulnerable and disadvantaged groups to services supported by the Program, stakeholder engagement practices and analysis of existing grievance redress mechanisms in implementing agencies. It also included a review of various international organizations’ publicly available reports and relevant Bank’s studies.

## **Stakeholder Engagement**

**Initial stakeholder consultation meetings.** To develop a better understanding of implementation practices, procedures, standards, and the approach for this Program, in the period from October to November 2022, the Bank team carried out meetings with various stakeholders including technical staff in the Ministry of Finance (MoF), the Ministry of Environmental Protection (MoEP) other government agencies, Public Policy Secretariat (PPS), and representatives of CSOs (Belgrade Open School, Koalicija 27, CEP, Transparency International Serbia, and RERI) The full list of stakeholders consulted during the program preparation is provided in Annex 3.

These initial stakeholder consultation meetings informed key ESSA findings, contributed to formulating the ESSA Program Action Plan, and impacted the design of the Program.

**Formal consultations**. The draft ESSA was published in English on the Bank's website on January 10, 2023, and on on the MoF website on January 16. Public comments will be solicited until January 23, 2023. The World Bank will hold public consultation on the draft ESSA report on January 19, 2023.

The World Bank will carry out consultations with key stakeholders on the draft ESSA report in January 2023. Observations from the meeting will be incorporated into the final ESSA report. The complete list of participants and a summary of their comments will be included in Annexes 3 and 4.  The final ESSA report will be disclosed in English and Serbian languages on the external website of the World Bank and Ministry of Finance in Serbia.

Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

# **PROGRAM DESCRIPTION**

The Government of Serbia (GoS) and the World Bank are engaged in the preparation and development of a new PforR operation with an aim to improve the efficiency of key areas of PFM at financial and other agencies to support green growth. The government program is set out in PFM Reform Program (PFM RP) for 2021-25 as a subset of the broader Public Administration Reform Strategy 2021-2030 and the GoS’ Green Agenda for 2021-2030. The PfoR is intended to support GoS' to improve the current PFM and PIM systems towards well-targeted and efficient use of public funds to ensure public resources contribute to Serbia’s green transition.

The Program Development Objective (PDO)is to improve core PFM functions and institutional capabilities needed for Serbia’s fiscal resilience and green transition. The Program includes two proposed Results Areas (table 2): (i) strengthen fiscal resilience, transparency, and spending effectiveness which will include 3 DLIs (3, 6, 7) focused on further strengthening fiscal resilience, using public expenditure management to enhance efficiency and results in focus, enhancing the ability to link plans and budgets through stronger costing at the planning stage, improve fiscal transparency, and improving the preparation of public investment projects; (ii) Results Area 2: Greening Serbia’s expenditure cycle and developing its GHG monitoring, reporting and verification (MRV) system for environmental resilience, which will include 5 DLIs (1.2, 4, 5, 8) focused on introducing and utilizing green criteria in PFM, PIM, and public procurement, and on strengthening systems for monitoring and reporting on GHG emissions from installations.

The program will not support the following elements of the PFM Reform Plan and the Green Agenda:

* PFM reform elements well covered by other partners or existing Bank operations or not yet ready for implementation support – notably internal financial control, tax and customs-related reforms, and general public procurement strengthening (covered by other support, including an existing Bank IPF for tax administration modernization).
* For the Green Agenda, the Program does not include specific investments for the five substantive areas which are increasingly receiving investments from other development partners and other WB operations; the focus of the PforR is to support significant progress on the cross-cutting implementation mechanisms, including systems and capacities for monitoring GHGs.

Table 1. provides overview of the main PDO level indicators.

**Table 1: PDO level indicators**

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator** | **DLI** | **Baseline** | **Target** |
| ***Results area 1 - Strengthening fiscal resilience, transparency, and spending effectiveness*** | | | |
| Improved availability and use of performance information for budgeting | 6 | Information on fiscal outturns and on performance indicators is published with long delays and does not effectively inform the annual budget preparation Disaggregation by gender (of allocation and results) remains little used. | Fiscal outturn information and program budget KPIs (including a focus on public sector efficiency and including disaggregation by gender) are published at least once within 12 months of budget adoption and analysis of costs and results achieved informs future annual budgets. |
| Public investment projects are better prepared | 3 | The decree on capital projects is not fully implemented hindering better preparation of investment projects | The Ministry of Finance issues an opinion on financial and implementation aspects on all projects submitted for selection and recommends a priority list of Projects based on criteria prescribed by the GoS and final selection is largely based on the recommendations given |
| Fiscal risk monitoring is effective | 7 | Fiscal risk methodologies have been adopted | The annual budget documentation states forward looking fiscal risks and adjustments to be made in case that risks materialize |
| ***Results area 2 - Establish a GHG MRV system and introduce green criteria in the Borrower’s expenditure cycle for greater environmental resilience*** | | | |
| The share of green and climate responsive public investments in total capital expenditures is increased | 4 | The share of green public investments is not systematically monitored or reported on | By 2026, the share of green and climate-responsive capital expenditures reaches at least 25% of total capital expenditures |
| An MRV system for GHG emissions in line with European Union and international standards becomes effective and enables emission reporting | 8 | Legal requirements adopted, regulations expected to be adopted shortly, but no actual system in place. | For the 2nd biannual transparency report (BTR) to be submitted to the UNFCCC in 2026, MoEP (Serbian Environmental Protection Agency – SEPA) produces a national GHG inventory covering institutions and emitting installations |

**Figure 1: Government programs and Program for Results – Results Areas**

Climate, energy, mobility

*DLI 8/MRV*

Circular economy

*DLI 5/GPP*

Depollution

Sustainable agriculture and food production

Biodiversity

**Green Agenda 2021-2030**

***RA 2:*** Greening Serbia’s expenditure cycle and developing its greenhouse gas (GHG) monitoring, reporting and verification (MRV) system for environmental resilience

Improved spending efficiency & fiscal resilience

**PFM Reform Program 2021-2025**

***RA 1:*** strengthen fiscal resilience, transparency, and spending effectiveness

## **Program Result Areas and Program Disbursement Linked Indicators (DLIs)**

The DLIs are selected to further strengthen the most relevant aspects of public financial management along the public expenditure cycle, and on this foundation to initiate the systematic inclusion of green considerations, including climate mitigation and adaptation, into public expenditure management. This in turn is a key element of developing institutional mechanisms for implementing Serbia’s Green Agenda.

**Table 2: Overview of Result Areas and DLIs**

|  |  |
| --- | --- |
| DLI | Description |
| **Results Area 1: Strengthening fiscal resilience, transparency & spending effectiveness** | |
| 6 | The MoF and selected Borrower line ministries improve fiscal transparency and program budgeting, including use of key performance indicators and gender disaggregation for relevant areas |
| 3 | Supporting the MoF and selected Borrower line ministries on preparation of public investment proposals, as well as on ensuring timely initial and progress reporting on public investment projects through PIMIS, and improving the registry of assets |
| 7 | Supporting FRMD/MoF in reporting forward looking fiscal risks and utilization of risk information in MoF decision-making |
| **Results Area 2: Establish a GHG MRV system and introduce green criteria in the expenditure cycle for greater environmental resilience** | |
| 1 | Supporting the Public Policy Secretariat in developing guidance and calculator (including updating the existing Manual on costing), and line ministries in developing and adopting green elements and strengthened cost calculation, for their public policy documents |
| 2 | Supporting MoF and relevant budget users to finalize a methodology, start implementing Green Budget Tagging & use resulting information |
| 4 | Supporting MoF and relevant budget users in developing, adopting, and using green criteria as part of public investment management |
| 5 | Supporting the PPO and 7 key budget users in applying green public procurement rules |
| 8 | Supporting MoEP and SEPA in establishing a GHG MRV in line with European Union and international standards |

Results Area 1 supports objectives 1 and 3 of the PFM RP and aims to enhance fiscal resilience, transparency, and spending effectiveness. It will further strengthen the foundations of interlinked elements of planning, budgeting which are critical for making the introduction of ‘green’ criteria meaningful and effective. This includes performance and fiscal risk management, public investment management, and fiscal transparency, as in each of these further progress across these areas is critical for enhancing spending efficiency and resilience to shocks and for developing solid foundations for the implementation of Serbia’s Green Agenda as well as for other policy domains (Figure 3 – bottom). Results area 1 includes: (i) support to strengthening linkages between planning documents and budgeting through a focus on improved and consistent approaches to costing in sector plans (also as a basis for better costing green aspects) (DLRs 1.1 and 1.2), (ii) strengthening the performance-orientation in budgeting (building on existing program budgeting) through stronger use of performance information in the development of subsequent budgets, including use of performance information disaggregated by gender and to enable better performance reporting for key policy areas related to the green transition, and enhancing fiscal transparency (DLI 6), (iii) strengthening fiscal risk management and fiscal risk reporting (including on natural disasters/climate change impacts), including planning of fiscal contingencies (DLI 7), and (iv) supporting a strengthening of public investment management through more systematic preparation and reviews (DLI 3).

Results Area 2 supports a set of inter-connected public sector reforms that are key parts of the implementation mechanisms of the Green Agenda.This starts with DLRs 1.2 which targets the introduction of green criteria into planning documents, and related multi-year costing. Planning documents provide important guidance for the prioritization of other actions, including the selection and preparation of public investments. A second element of RA 2 is to support the implementation of Green Budget Tagging (DLI 2). Complemented by TA, this DLI will help to realize and complete initial cycles of GBT which is expected to be introduced as a legal requirement by the end of 2022, supported by the DPO. Tagging also provides the foundation allowing green and climate requirements to inform budget negotiations and execution monitoring. This effort will also build on Serbia’s emerging experience with implementing Green Bonds and identifying relevant expenditures. Further DLIs will support: (i) the introduction of green and climate-sensitive criteria into public investment management (DLI 4), (ii) the roll-out of green procurement (DLI 5), that is, putting the already adopted green procurement guidelines (2019) to actual use – directly supporting the GoS’s goal of shifting from a linear to a more circular economic system, and (iii) meeting the Government’s commitment through Chapters IV and V of the 2021 Law on Climate Change to put a Monitoring, Reporting, and Verification System for GHG emissions in place (Pillar on climate, energy and transport of the Green Agenda).

## **Investment Project Financing Component (IPF) of the program**

The current Program has a hybrid form that combines two financial instruments of the World Bank; Program for Results (PfoR) and Investment Project Financing (IPF). The IPF component will fund technical assistance (TA) for direct hand-holding support to achieve agreed results in the two result areas. Direct hand-holding support is important to achieve results and address bottlenecks where and when needed. Project management support is essential in implementing PforR and meeting monitoring, reporting and verification requirements, which is time intensive and may be difficult to achieve for existing partner staff without additional contractable support. Through a range of capacity-building measures (such as training, mentoring, on-the-job learning, peer learning from other countries and the development of manuals and guidelines), TA will address change and program management, stakeholder engagement, as well as possible investments in hardware and software elements needed to implement the GHG MRV system. In addition to the environmental and social measures to be included in the Program Action Plan for the PfoR component, the IPF-funded component envisages the introduction of good international industry practices and tools for managing social and environmental risks for the program duration. This includes the development of several important E&S plans/procedures such as Stakeholder Engagement Plan (SEP), Labor Management Procedures (LMP) and, in the case of any construction works, Environmental and Social Management Plans/Checklists. These instruments will be agreed upon in Environmental and Social Commitment plan (ESCP) and conceptualized in Program operational Manual (POM).

## **Overview of Key Implementing Agencies**

The key implementing agency is MoF, whichwill oversee overall Program implementation. A program steering committee (PSC) will be established to guide the implementation of the program.The MoF, through the DICEI, will be the primary implementing agency and will coordinate program implementation with other stakeholder institutions. The DICEI will collect information about the progress toward the DLIs from institutions responsible for specific DLIs as well as from institutions’ in-year and annual budget execution reports, which are included in the Program Expenditure Framework (PEF). The DICEI will communicate with the World Bank about achieved DLIs and deliver budget execution reports.

The PSC will be established to guide the implementation of the program, this will also serve to intensify inter-ministerial coordination on the implementation mechanisms for the Green Agenda and to build a closer connection between core institutions (MoF, PPS, PPO) and relevant sector ministries. Apart from MoF and MoEP, key ministries include the MoME and the Ministry of Construction, Transport, and Infrastructure (MoCTI). Additional institutions will be responsible for monitoring the implementation of specific DLRs and these are Public Policy Secretariat, MoF’s Budget Department, MoF’s Fiscal Risk Monitoring Department, Public Procurement Office, and the Public Property Directorate.

**Figure 2: Institutions involved in the Program and their roles in implementation**

**Program Steering Committee** – chaired by MoF and comprising representatives of MoF; Ministry of Environmental Protection; Ministry of Construction, Transport and Infrastructure; Public Policy Secretariat; Public Procurement Office; Ministry of Mining and Energy; WB; AfD; others to be invited as needed

Ministry of Finance

Coordinator + *leading DLIs 2, 3, 4, 6, 7*

DLI 4

DLI 5

Regular progress reporting and reporting on DLR fulfillment

Public Procurement Office

*Lead for DLI 5*

Public Policy Secretariat

*Lead for DLI 1*

Ministry of Environmental Protection – inputs for DLIs 1, 2, 4, 5 + *lead for DLI 8*

DICEI

*Agreeing green criteria and rules for checking*

Ministry of Construction, Transport and Infrastructure

Inputs to DLI 4

Ministry of Mining and Energy

Inputs to DLI 5 and 8

**Other sector ministries and agencies**

Applying new and strengthened guidance, including green criteria

## **Description of previous experience**

The majority of implementing agencies of the Program – MoF, MoEP, MoME MoCTI, the Public Policy Secretariat, have experience with the implementation of World Bank operations. These include the Local Infrastructure Investment Development (P174251) supporting PFM, PIM and green projects at sub-national levels, support for improving State-owned Financial Institutions [(P156837)](http://operationsportal.worldbank.org/secure/P156837/home), Tax Administration Modernization (P163673), and Enabling Digital Governance (P164824). Relevant operations that cover sectors with Green Agenda elements include Railway Sector Modernization (P170868; follow-up project: Railway Modernization Phase 2, P179703), Serbia Competitive Agriculture (SCAP) (P167634), and the Scaling Up Residential Clean Energy Project (SURCE) (P176770).

# **ANTICIPATED ENVIRONMENTAL AND SOCIAL EFFECTS OF THE PROGRAM**

The overall objective of Program-financed activities is to make the PFM system in Serbia more efficient, inclusive, and green-oriented. The Program will not fund any activities involving high or substantial environmental or social risks, such as extensive land expropriation, relocation of large numbers of people, heavy pollution, significant transformation of the natural environment, or activities that pose a threat to the health and safety of workers and communities. The Program is expected to have many positive environmental and social effects in the areas of government accountability, transparency, inclusiveness, and green growth.

The expenditure framework envisages the provision of subsidies to public and private and specialised services to incentivise preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of environment-friendly cars. Current environmental legislation and procedures are sufficient for regulating the described activities. However, there are risks related to the adequacy of consultation and disclosure process and the potential of excluding vulnerable and disadvantaged groups from the Program benefits. These risks may be easily mitigated by ensuring that public calls have transparent awarding criteria, preliminary and final lists of subsidy beneficiaries are published with explanatory notes and disclosed at MoEP web site. Furthermore, activities related to waste management, although aimed at recycling and other improvements, may cause harm to human and environmental health if undertaken improperly. Adequacy of the national regulatory framework and the accumulated national experience suggest that this risk is insignificant. Overall, the Program’s social risk is moderate and environmental risk is low.

## **Main Environmental Effects of the Program**

The program is overall very beneficial from climate and environmental perspectives. Achieving the results defined through DLIs will significantly enhance Serbia’s public sector focus and action on climate change across the planning, budgeting, public investment planning, and procurement cycle. DLI 8 directly targets and supports the monitoring, reporting, and verification of GHG emissions. Other DLIs will help with improving other climate aspects, namely: (i) to improve linkages for integration of green and climate aspects into the costed strategies and other public policy documents; (ii) implementation of green budget tagging to inform resource allocation decisions and budget execution, with support by the development of tagging methodology that supports green and climate policy needs, training of line ministries, and other technical support for implementation; (iii) mainstreaming of green and climate criteria into public procurement by recognizing goods, services, and works with a reduced environmental impact throughout their life cycle. The integration of green criteria of projects is expected to trigger the implementation of environmental best practices which will lead to best utilization of resources, such as energy, water and waste management, adaptation to climate change.

The Program also includes recurrent spending that targets Green Agenda results – and improving their results orientation is targeted through the program budget interventions under DLI 6.Subsidies under MoEP’s budget incentivise preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of environment-friendly cars. There are two groups of subsidies targeting public institutions and private entities. There are established procedures within MoEP with regard to eligibility criteria, approving, and monitoring of subsidies. The procedures are robust and complied with in practice. The procedures related to subsidies are regulated by relevant bylaws[[5]](#footnote-6) and further accompanying guidance and templates. The process is competitive and based on public calls for applications. MoEP will be responsible for this activity in the framework of DLI6. These activities are not different form the regular duties of MoEP. In 2021/2022, within the framework of its Green Agenda Program, MoEP disbursed subsidies for reuse of waste[[6]](#footnote-7), for the activity of illegal waste disposal prevention and remediation, for protection of soil as natural resources, and for protection of spatial diversity – afforestation. The efficiency of disbursement is more than 98% leading to the conclusion that MoEP has sufficient capacity to implement the Program. MoEP inspectorate supervises and controls waste reuse and quantities and issues verification document for the purpose of subsidies. Additional possibility to control special waste streams is through database of the Agency for Environmental Protection. The Program will not create an additional environmental footprint as will support neither construction of new infrastructure nor the extraction of natural resources. It does not include any activities that may lead to heavy emissions or to generation and discharge of large volumes of waste.

Serbia is EU assession country and its environmental regulations, to some extent, are aligned with the EU. Considering all above mentioned, the overall environmental risk is assessed as Low.

**Table 3. Environmental Risks and adverse Impacts**

|  |  |  |  |
| --- | --- | --- | --- |
| **Impacts** | **Assessment** | **Risk** | **Mitigation** |
| Disturbance or damage of habitats, biodiversity, or cultural resources | None of the Program activities have the potential to affect natural or critical habitats directly or indirectly, although during the rehabilitation of existing buildings there is a low possibility to encounter tangible or intangible cultural resources. | Null | N/A |
| Large use of land, water, energy, and other natural resources | The Program will not support construction works, operation of industrial facilities, or natural resource extraction. | Null | N/A |
| Environmental pollution from heavy emissions, discharges, and solid waste | The Program will not support any activities causing environmental pollution with heavy emissions, liquid discharges, or large amounts of solid waste. The Program may support only small to medium-scale rehabilitation of existing public buildings. However, in rare cases, rehabilitation works may also carry tangible environmental risks. | Null | N/A |
| Threat to the health and safety of workers and communities | The Program implementation will not imply exposure to toxic chemicals, generation of hazardous waste or otherwise threaten the health and safety of workers and communities. | Null | N/A |

## **Main Social Effects of the Program**

Program activities are targeted at enhancing fiscal transparency as well as green and gender budget tagging and if combined with adequate support in public outreach and citizen engagement on budgets will provide the opportunity for citizens and investors to gain improved insight into the green budget policy and actions being implemented. These actions will form the base for improved dialogue between the Government and citizens.

The overall objective of Program-financed activities is to make the PFM system in Serbia more efficient, inclusive, and green-oriented. Contextual, political and reputational risks associated with the program are low. The Program is aligned with the relevant strategic framework of the country. Institutional capacity risk is also low if TA is mobilized to provide support in achieving planned results. The activities financed under the Program will not include any civil works which require land acquisition or the relocation of people, initiate a labour influx, or cause adverse impacts on communities. The Program is expected to create a wide range of social benefits. Improved green and gender budget tagging, and improved transparency in financial reporting will have a positive impact on the visibility of green expenditures, which combined with an adequate engagement strategy will facilitate communication with citizens, investors and other stakeholders. The Program is not anticipated to cause adverse effects on gender, vulnerable and disadvantaged groups, poverty, and equity. The Program intends to support the GoS in promoting gender inclusiveness by building on the GoS’ existing commitment in identifying gender-specific public expenditures and performance indicators. The Program will not finance any activities that will require the acquisition or conversion of land or the restriction of access to resources.

**The main social risks associated with the Program relate to Core principle 1** which promotes informed decision-making relating to a Program’s E&S effects and **Core principle 5** with special regard to vulnerable and disadvantaged groups’ access to stakeholder engagement activities. The vulnerable and disadvantaged groups may include persons from rural or high mountainous regions, internally displaced persons (IDPs), people with disabilities and special needs, Roma, women, LGBT population, ethnic/linguistic/religious minorities, those without internet/device connections, and the poor, especially those persons or families who have lower education levels, nutrition, and health outcomes.

Vulnerable and disadvantaged groups may not be adequately targeted, and the model of engagement may not be aligned with their needs and may be excluded from the dialogue on Public finance Reform and green budgeting. Low capacities for tailored outreach efforts, presenting sufficient information in an accessible manner as well as a lack of functional grievance redress systems at the national and local level are assesses as key barriers to effective stakeholder engagement.

Furthermore, the implementation of the Program activities will impose an additional workload on the public administration staff causing potential workplace burnout. This is particularly relevant for those ministries and implementing agencies that are currently understaffed. To mitigate this potential negative impact, the public administration team will be supported by sector specialists who will work under IPF/TA component and will ensure the efficient execution of tasks.

Considering the nature of the Program, the complexity of the intersectoral coordination process, possible risks and existing capacities in social risk management, the overall social risk of the Program is moderate.

The use and handling of personal data is not anticipated to be a risk within the scope of the Program. Personal data to be collected under the activities financed by the Program will be used and managed in line with the national law on personal data protection. As this was the obligation of Serbia as an EU member candidate in the process of EU integration, this Law is aligned with the EU General Data Protection Regulation, and thus with main WB requirements.

Table 2 summarizes the risks related to the Program’s social effects according to the [Bank Policy Program-for-Results Financing.](https://ppfdocuments.azureedge.net/f9e36a3b-72e0-4edb-9fdc-96bf555c7208.pdf)

| **Impacts** | **Assessment** | **Risk** | **Mitigation** |
| --- | --- | --- | --- |
| Involuntary resettlement | The Program will not involve any major civil works or private land acquisition; therefore, no involuntary resettlement will occur under the Program. | Null | NA |
| Forced expropriation of land and private property | The Program will not involve any major civil works or private land acquisition; therefore, no expropriation or forced acquisition of private property will occur under the Program. | Null | NA |
| Restricted access to goods, services, natural resources and loss of income | The program will not involve any type of activities which may pose the risk of restricted access to services, goods, natural resources and loss of income. | NULL | NA |
| Child and forced labour | The Program will not involve any activities which may risk the use of child or forced labour. | Null | NA |
| Inadequate equitable access to Program benefits by vulnerable and disadvantaged groups | There is a risk that vulnerable groups will not be adequately targeted and that model of engaging these citizens will not be aligned with their needs. Because of this, they can be excluded from the benefits of this program. | Moderate | The main provisions of  SEP will be elaborated in the POM to reach out to and explain relevant Program benefits to vulnerable and disadvantaged groups. MoF will establish program SEA/SH sensitised GRM |
| Avoid exacerbating social conflicts, especially in fragile states, post-conflict areas, or areas subject to territorial disputes | Serbia is not considered a fragile state or a post-conflict zone. Therefore, this core principle does not apply to the Program. | Null | NA |
| Promote informed decision-making relating to a Program’s E&S effects | Previous experiences showed that the budgetary process and language used in the communication appear not to be sufficiently transparent and overcomplicated for citizens thus resulting in citizen disinterest in this matter. | Low if adequate Communication strategy is applied | Transparency, gender and green budget reporting are being addressed through the program.  The Program will support MoF and MoEP in enhancing their engagement with citizens on green expenditures and on the monitoring and reporting of GHG emissions. As part of the IPF component,MoF will be supported to develop a green focus in its citizen budget presentation, as well as to provide more gender disaggregated information in citizen budgets. MoEP will be supported in citizen engagement on the GHG MRV system |

# **ASSESSMENT OF BORROWER’S ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEMS**

The ESMS aims at identifying and mitigating potential negative effects from the Program activities on the population and environment, including:

* Potential impacts on citizens and, in particular, vulnerable and disadvantaged groups
* Underdeveloped mechanisms and infrastructure for waste management.
* Potential impacts on the health and safety of workers and communities as a result of rehabilitation works.
* Potential impact on cultural resources.

The ESMS includes the following:

* Regulatory and legislative framework.
* Institutional arrangements and institutional capacity to identify environmental and social risks, and to implement, monitor, and follow up on the evaluation of mitigation actions;
* Grievance mechanisms including the procedures and tools for affected people to resolve disputes; and

In the area of horizontal legislation, Serbia has a high level of alignment with the EU acquis. Overall, Serbia needs to improve its administrative capacities at central and local level, including at inspectorates and judiciary.

The existing systems will be assessed against each Core principle of PfoR policy and will discuss in parallel social and environmental aspects of the current legislative procedural and institutional capacity.

Table 4 summarizes the assessment of the consistency of the Borrower’s ESMS with Core Principles in the PforR Policy.

**Table 4. Assessment of the legal framework compliance of the Borrower’s ESMS with Core Principles in the PforR Policy**

|  |  |
| --- | --- |
| **Core Principle** | **Compliance of Borrower’s ESMS and main gaps** |
| 1. Program’s environmental and social management systems are designed to (a) promote environmental and social sustainability in the Program design; (b) avoid, minimize, or mitigate adverse impacts; and (c) promote informed decision-making relating to a Program’s E&S effects. | Environmental risk management in the country is regulated through The Law on Environmental Impact Assessment and the Law on Strategic Environmental Impact Assessment. To a limited extent, it covers social aspects too. These laws are mostly aligned with good international practice and require screening, scoping, avoiding, minimizing, and mitigating adverse environmental impacts of the proposed interventions as well as compensating for the residual impacts. GRM and informed decision-making related to environmental risks are required.  They are aimed at promoting sustainable development and public participation in decision-making.  Serbia’s national legislation does not require a social assessment of proposed projects. Laws that guide and prevent potential social impacts from proposed projects are summarized under the Core Principle 5 section. |
| 1. Program’s environmental and social management systems are designed to avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program. Program activities that involve the significant conversion or degradation of critical natural habitats or critical physical cultural heritage are not eligible for PforR financing. | This Core Principle is not relevant for this PforR. The Program will not involve activities which may have impacts on natural habitats and physical and cultural resources. |
| 1. Program’s environmental and social management systems are designed to protect public and worker safety against the potential risks associated with (a) the construction and/or operation of facilities or other operational practices under the Program; (b) exposure to toxic chemicals, hazardous wastes, and otherwise dangerous materials under the Program; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards. | This Core Principle is not relevant for this PforR. The program will not include any construction works. |
| 1. Program’s environmental and social systems manage the land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement and assists affected people in improving, or at the minimum restoring, their livelihoods and living standards. | This Core Principle is not relevant to the Program. The Program will not include any activities which may require land acquisition or cause loss of access to natural resources. |
| 1. Program’s environmental and social systems give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities, and to the needs or concerns of vulnerable and disadvantaged groups. | Indigenous peoples/sub-Saharan African historically under-observed traditional local communities are not present in Serbia.  There are vulnerable and disadvantaged groups whose needs should to be considered. Social assessment of the different programs is not required by Serbian legislation. Therefore, there are no differentiated measures to ensure that adverse impacts neither fall disproportionately on the vulnerable and disadvantaged nor that they share in the development benefits and opportunities resulting from the project. Instead, Serbia relies on social laws and policies to guide and prevent potentially adverse social impact of proposed projects.  Even though inclusion in the consultative process of vulnerable and disadvantaged groups in the budgeting process is not specified by any particular law, many of Serbia’s laws do aim to protect these groups and ensure their inclusion. Several laws are relevant for ensuring equal access to Program benefits for certain vulnerable and disadvantaged groups. These laws are The Law on Gender Equality, The Law on the Elimination of All Forms of Discrimination, the Law on Prevention of Discrimination against Persons with Disabilities and the Law on Local Self-Government. The Law on the Budget System in 2015 introduces "Gender responsible budgeting', which implies a gender analysis of the budget and income restructuring intending to improve gender equality.  Although these laws are aligned with international conventions, there is room for improvement in enforcement in particular when it comes to participation in the finance reform process .  The new Law on the Planning System of the Republic of Serbia implies that public policies are established within a transparent and consultative process, i.e., that during the development and implementation of planning documents, a transparent consultation process is carried out with all interested parties and target groups, including associations and other civil society organizations. The budget process and the decision-making process are still not transparent enough, and citizens in general, especially vulnerable groups and the civil sector, are not sufficiently involved and consulted. In sum, the regulatory framework for ensuring the inclusion of vulnerable groups is in place and sufficient; the anticipated challenges are enforcement and implementation capacity. This is particularly relevant for the inclusion of vulnerable groups in consultative processes related to Public Finance reform. Missing preconditions are timely information, presentation of the budget and other documentation in a widely understandable way, and organized involvement and consultation through formats as required by different kinds of citizens and vulnerable groups. The e-consultation portal established in late December 2021 aims to improve consultation process for the public policy documents and regulations in Serbia. |
| 1. Program’s environmental and social systems avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes. | This Core Principle is not relevant to the Program. The activities shall not take place in a fragile state or areas subject to territorial disputes. |

## **Overview of Relevant Environmental Legal Framework**

This section provides a summary of the main, regulations, and international agreements and conventions relevant to the environmental systems assessment Program’s areas.

* **Environmental impact assessment:**

**The Law on Environmental Impact Assessment (OGRS 135/2004, 36/2009)** provides a categorization of industries and projects and identifies types of environmental assessment required against respective categories of industries or projects. Pursuant to Article 3 of the Law, the environmental impact assessment is carried out for projects planned on protected natural heritage and in the protected sites of immovable cultural assets.

**Regulation on the determination of the list of projects for which an impact assessment is mandatory and the list of projects for which an environmental impact assessment may be required** (114/2008)

Projects identified in List 1 of the Regulation undergo an EIA, while for the projects identified in List 2 an EIA may be required only upon the specific decision by competent authorities. Public buildings are not listed either in List 1 or in List 2.

In such cases, provision of the environmental protection legislation such as the prevention of adverse impacts on the environment is applied in the process of project preparation through the development of technical documentation and energy audits and during implementation.

**Law on Strategic Environmental Impact Assessment** (OGRS 135/2004 and 88/2010) prescribes that the assessment of possible impacts of the plan and program on the environment contains the following elements: a) presentation of the estimated impacts of variant solutions of the plan and program favourable from the point of view of environmental protection with a description of measures to prevent and limit negative, i.e. increasing positive impacts on the environment b) comparison of variant solutions and presentation of the reasons for choosing the most favourable solution c) presentation of the estimated impacts of the plan and program on the environment with a description of measures to prevent and limit negative, or increase positive impacts on the environment d) the way in which environmental factors were taken into account during the impact assessment, including data on: air, water, soil, climate, ionizing and non-ionizing radiation, noise and vibrations, plant and animal life, habitats and biodiversity; protected natural assets; population, people's health, cities and other settlements, cultural and historical heritage, infrastructural, industrial and other objects or other created values d) the way in which the characteristics of the impact were taken into account during the assessment: probability, intensity, complexity/reversibility, time dimension (duration, frequency, repetition), spatial dimension (location, geographical area, number of exposed inhabitants, cross-border nature of the impact), cumulative and the synergistic nature of the impact.

**The Strategy for implementation of the Aarhus Convention** which obliges states and grants the public rights in three areas of the convention: access to information, public participation in decision-making and access to justice in environmental matters following the provisions of the Convention is at the Draft stage and submitted for public consultations.

**Law on fees for the use of public goods** (OGRS 95/2018 and 49/2019) defines the amount of compensation for products that become after use is prescribed special waste streams, products that become special after use are defined as waste flows, method and deadlines for submitting the annual report.

* **Subsidies for environmental protection**

**Regulation on the amount and conditions for awarding incentives (OGRS 88/2009, 67/2010, 101/2010, 86/2011 and 35/2012)** defines type and conditions for disbursement of incentive funds for the following purposes: for reuse and use of waste rubber as secondary raw material; for the treatment of waste tires for the purpose of obtaining energy; for the production of bags; for reuse, recycling and use of waste electrical and electronic equipment as secondary raw materials. While for the producers of reusable plastic bags no specific conditions are set, in all other cases only operators of facilities for reuse, i.e., waste treatment, who have a permit in accordance with the law are eligible for incentives. In addition to the permits (Article 4), operators are obliged to submit waste management plan, a contract with persons who have a permit for the collection, transport and storage of waste from electrical and electronic equipment, quarterly report on the amount of waste for which the operator provided treatment and the conclusion of the competent inspection body confirming that the operator has provided treatment in accordance with the regulation governing the manner and procedure of waste management of products and to the amounts stated in the quarterly report.

**Public calls and application form**

Four calls in a calendar year are published at MoEP web site.

Each call includes the application form which has the following main sections to be filed in by the applicant:

a) Data on the applicant: (number and qualifications of the employees, type of licence, possession of ISO 1400 and ISO 9000, number of locations

b) Activities at the location: i) ownership/lease data; ii) type of location: urban, industrial, natural park, residential, other; iii). identification of distance less than 100m from hospitals, residential areas, kindergartens or less than 100 m form other plant that visibly is a polluter of a plant that stores industrial waste; iv). identification of spatial limitations at the location such as protected area protected zone, urbanised areas, other; v) information of grievances/complaints form; vi) size of the location; vii) number of buildings, intended investments and type of energy used for work.

c) Environmental conditions and permits: i) number and type of waste management permits; ii) buildings usage and/or construction permits; iii) number of inspection controls; iv) any fees/penalties paid whereas legal entities fined for non-compliance with regulations in the field of environmental protection in previous year are not eligible for subsidies; v) waste management: type of waste treated and data on products resulting from waste treatment.

Article 64 of the Budget system law (Official Gazette of the RS No. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13-corr., 108/13, 142/14, 68/15-other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19 , 149/20, 118/21, 118/21-other law i 138/22), stipulates the change in the form the funds are presented due to the lack of legal subjectivity (funds are defined as evidence accounts in the treasury system). Namely, since the Law on budget for 2021, the funds are expressed as programme activities.

**Regulation on the conditions and method of implementing the subsidized purchase of new vehicles that have an exclusively electric drive, as well as vehicles that, in addition to the internal combustion engine, are also powered by an electric drive (hybrid drive) (OGRS 156/2020 and 53/ 2021)** regulates the conditions and the method of implementing the subsidized purchase of new vehicles that have an exclusively electric drive, as well as vehicles that, in addition to the internal combustion engine, are powered by an electric drive (hybrid drive), to encourage an environmentally friendly type of transport**.** The requests for subsidies are submitted to MoEP in a sealed envelope. The request must include a Certificate of conformity, which for hybrid-powered vehicles contains information on CO2 emissions, and for electric-powered vehicles, information that the vehicle is electric. The size of subsidy is determined on the basis of the type of vehicle.

* **Health and Safety at Work**

**The Law on Occupational Health and Safety (OGRS 101/2005, 91/2015 and 113/2017)** arranges for health and safe tot work of persons involved in the work process and the persons present in the working environment in order to prevent injuries at work, professional diseases and diseases related to work. The law prescribes obligations of employers and rights of employees. The Law prescribes that the employers are obliged to prepare Act on risk assessment in writing for all job positions in the work environment and to determine method and measures for elimination or mitigation of risks. The Act is focused on identifying possible hazards and adverse impact at the workplace and in its environment based on which the risk assessment of injury or damage to the health of an employee is carried out. The employer (Article 18) in the process of construction shall prepare a Study on arrangement of the construction site which along with the works commencement report must be submitted to the works inspectorate. Pursuant to Article 20, the Employer is obliged to prevent access to the facility or the construction site area to persons and vehicles which are not connected to work operations. The Law prescribes that the employers are obliged to prepare Act on risk assessment in writing for all job positions in the work environment and to determine method and measures for elimination or mitigation of risks. The Act is focused on identifying possible hazards and adverse impact at the workplace and in its environment based on which the risk assessment of injury or damage to the health of an employee is carried out. Pursuant to article 37, employers are obliged to appoint a licenced HSE employee and section 3 of the Law prescribes employees training in health and safety at work.

**Rulebook on the method and procedure of risk assessment in the workplace and in the working environment** (OGRS 72/2006, 84/2006, 30/2010 and 102/2015) further prescribes contents and methodology for preparation of Risk assessment act.

## **Overview of Relevant Social Legal Framework**

**This section provides a summary of the main relevant laws, regulations, and international agreements and conventions for each of the Program’s areas relevant to social performance**

* **Stakeholder and Citizen Engagement in the budgeting process and green initiatives**

In the area of the participation of citizens in decision-making processes, normative steps have continued in the direction of improving the conditions for civic participation in decision-making processes.

**Law on State Administration: Law on Amendments to the Law on State Administration** from 2019 created conditions for the more successful participation of the interested parties in the process of decision–making and creation of regulations.

**Law on Local Self Government: Law on Amendments on Local Self Government** introduced the obligation for cities and municipalities to consult citizens on the segment of the budget relating to investments thus increasing the possibility for citizen participation in policymaking.

As a bylaw of **the Law on the Planning System of the Republic of Serbia, the Regulation on the Methodology of Public Policy Management,[[7]](#footnote-8)** **Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents** (("Official Gazette of RS", No. 8/19) was adopted, in January 2019.

As a bylaw of the **Law on Public Administration,** the **Rulebook on the Guidelines for Good Practice for Public Participation in the Preparation of Draft Laws and Other Regulations and Acts** (("Official Gazette of RS", No. 8/19) was adopted in July 2019.

All these regulations prescribe the mandatory realization of consultations at all stages of preparation of regulations and public policy documents in detail, as well as public debate procedure at the end of the process of preparation of public policy documents and regulations, including the definition **of consultation methods, obligations, methods and forms of reporting on consultations, as well as the involvement and active participation of interested parties and target groups in the working groups.**

**Law on Environmental Impact Assessment** - Article 29 of the ("Official Gazette of RS", No. 135/04 and 36/09), regulates the manner of informing the public. According to this Law, the competent authority must inform the public about the request submitted issuing a decision on the need for influence assessment, then on the time and place of public insight, as well as the decision to give consent, i.e., rejection of the request, through at least one local newspaper, with the possibility of sending the mentioned notifications through electronic media. A similar solution exists when it comes to informing the public about the insight into the documents that are an integral part of the strategic impact assessment, and about which the public is informed through the media, but also in electronic form available on the website of the local government unit. A similar solution exists when it comes to informing the public about the insight into the documents that are an integral part of the strategic impact assessment, and about which the public is informed through the media, but also in electronic form available on the website of the local government unit.

**Amendments to the Law on Environmental Impact Assessment and the Proposal of the Law on Amendments to the Law on Strategic Environmental Assessment** encompass the obligation to establish a central web portal with all environmental impact assessment procedures and strategic environmental impact assessments.

**Action plan for the implementation of the Open Government Partnership initiative in the Republic of Serbia for 2020-2022** is an international initiative aimed at securing the support and greater engagement of governments around the world to improve the integrity, transparency, efficiency and accountability of public authorities, through building public confidence, cooperation with CSOs, strengthening citizen participation in governance, the fight against corruption, access to information and the use of new technologies.

**Guidelines for the Inclusion of CSOs in Working Groups for Drafting Public Policy Documents Proposals and Drafts, ie Proposals of Regulations ("Official Gazette of RS", No. 8/2**0). To regulate the process of inclusion of CSOs in working groups more closely, and make it as transparent as possible, in January 2020, the Government adopted Guidelines for the Inclusion of CSOs in Working Groups for Drafting Public Policy Documents Proposals and Drafts, i.e. Proposals of Regulations.

The purpose of these guidelines is to regulate and encourage the involvement of interest parties and target groups, primarily CSOs, in working groups formed by state administration bodies and thus ensure their participation at the earliest possible stage of the decision-making process. In addition, their implementation seeks to ensure the raising of the preparation process quality, but also the implementation of regulations and public policy documents through the involvement of civil society representatives who have relevant experience and expertise in a particular field.

The Guidelines for the inclusion of civil society organizations in working groups for the preparation of proposals for public policy documents and drafts, i.e. proposals for regulations ("Official Gazette of RS", no. 8/20 and 107/21) regulate the procedure for selecting representatives of civil society organizations in working groups for the drafting of regulations or proposals for public policy documents, through a public call with predetermined selection criteria and equal chances for the participation of all interested representatives of civil society. According to the Guidelines, the Ministry for Human and Minority Rights and Social Dialogue (which, with its establishment in 2020, took over the responsibilities of the Office for Cooperation with Civil Society) that, in cooperation with the competent bodies of the state administration that decide to include representatives of civil society organizations, implements the procedure of selecting representatives of civil society by publishing a public invitation to civil society organizations to submit proposals for candidates for membership in the working group.

**Law on Confirmation of the Additional Protocol to the European Charter on Local Self-Government on the right to participate in the affairs of local authorities**. The provisions of that protocol and that Charter on the obligation of public hearings during the preparation of budget decisions (in the part of investment planning) were immediately incorporated into the Law on Local Self-Government, with amendments to Article 11 of the Law. Based on that amendment to the law on local self-government from 2018, the adoption of every decision on the local budget must be preceded by a mandatory public hearing.

**The strategy for creating a stimulating environment for the development of civil society in the Republic of Serbia for the period from 2022 to 2030 (Official Gazette no 23/2022) was adopted in February 2022.** The strategy provides the legal and institutional framework necessary for civil society organizations to act independently and smoothly and be encouraged to participate more in reform processes. The goal of the strategy is to ensure greater involvement of the civil sector in the decision-making process at all levels, improve transparent funding and sustainability of the civil sector, increase the participation of civil society organizations in socio-economic development and act in accordance with sustainable development principles, as well as to ensure greater participation of these organizations in the process of European integration.

**Public Administration Reform Strategy 2021-2030** was created with the long-term vision to provide administration tailored to citizens and the economy, which entails transparent public administration that delivers high-quality and easily accessible services to citizens and businesses.

**Public Financial Management Reform Programme 2021-2025** defines the mayor reforms for institutions and bodies in different segments of the budget cycle, and describes in chapter 2.1 consultation and public dialogue process.

**Programme for improving public policy management and regulatory reform for the period 2021-2025** and specifically its Specific objective 4 -- aims at increased involvement of civil society, businesses and other stakeholders in the early stages of the development of public policy documents and regulations (Official Gazette no. 113/21).

* **Inclusion of Vulnerable Groups**

Several laws are relevant for ensuring equal access to Program benefits for certain vulnerable and disadvantaged groups. These laws are: The Law of on Gender Equality, The Law of on the Elimination of All Forms of Discrimination, and The Law on Prevention of Discrimination of Persons with Disabilities.

**Gender Equality Law**, article 40 on statistical evidence requires that statistical data collected, registered and analyzed at the level of the Republic of Serbia, autonomous province and local self-government, as well as in institutions and organizations performing public functions, in public enterprises and limited liability companies must be disaggregated by sex. This Law and the National Strategy on Gender Equality further affirm commitment to special measures (affirmative action) as a tool in closing the gender gap. Affirmative action is introduced by the Constitution of the Republic of Serbia which specifies the obligation of public institutions to advance gender equality, including special measures designed to close gender gaps.

**Budget System Law.** This Law regulates the planning, preparation, adoption and execution of the budget of the Republic of Serbia; planning, preparation, adoption and execution of the budget of autonomous provinces and local self-government units (hereinafter: local government budget); The Law regulates types and categories of public revenues and proceeds and public expenditures and outflows. The law under Article 4 stipulates the following: “Efficient allocation of budget resources with the objective advancing gender equality.” Under the law, gender-responsive budgeting (GRB) entails gender mainstreaming of the budget process, including gender analysis of the budget and restructuring of income and expenditures to advance gender equality. Program information from paragraph 5, point 2) of article 28 of the Budget System Law, contains descriptions of programs, program activities and projects of budget funds users, goals to be achieved in the medium term through the implementation of programs, program activities and projects, as well as performance indicators for monitoring the achievement of said goals. Some of the defined goals, i.e., the performance indicators of the program, program activity or project, represent gender-responsive goals, i.e., gender indicators that show and monitor the planned contributions of the program, program activity or project to the achievement of gender equality.

**The Decree on Energy Vulnerable Customers** (“Official Gazette of RS“, Nos. 113/2015 and 59/2018) in force stipulates that the beneficiaries of financial social assistance, child allowances and other low-income households can receive discounts on their electricity and natural gas bills, thanks to a subsidy financed from the state budget. The MoME is currently developing a new draft regulation to enhance and expand the protection of energy vulnerable customers, thus further mitigating existing energy poverty as well as anticipating future changes in the sector. At the proposal of the MoME, the Government adopted a new Decree on energy-endangered customers (Official Gazette of RS No. 137/22, entered into force in December 17, 2022). In relation to the previous Regulation: 1. The new Regulation increases the number of users from 68,000 to 190,000; 2. For the first time, the regulation also applies to thermal energy; 3. It is easier for rural households to achieve this status; 4. The opportunity to use the benefits of the regulation is also given to citizens with a compromised health condition; 5. Due debt for electricity, natural gas or thermal energy does not exclude the right to acquire the status of an energy vulnerable customer. **National Strategy of the Rights of Persons with Disabilities 2020-2024** was adopted on March 5 2020. The strategy aims to enhance the full participation of persons with disabilities in decision-making processes through the improvement of the strategic and legal framework, and advancement of their position in the open labour market, with special emphasis on improving the status of women and girls with disabilities.

**The strategy for social inclusion of Roma in the Republic of Serbia for the period from 2022 to 2030**. The strategy is based on international acts and national regulations dealing with the areas such as justice and protection of human and minority rights, social inclusion of Roma, equality and non-discrimination, education, employment, housing, health, social care and civil status.

The Law on Housing and Maintenance of Apartment Buildings[[8]](#footnote-9) is a new comprehensive law for the area of housing, which shall, inter alia, regulate the matter of separate parts of a building, building management, maintenance and use of buildings, the procedure of eviction and relocation, and housing support, as well. Article 79 of the Law prescribes the liability to ensure physical accessibility of buildings in accordance with the regulation governing the unhindered movement and access for persons with disabilities, children and the elderly when moving into adequate housing for persons with disabilities.

* **Communication and Information Disclosure**

The **Law on free access to information of public importance[[9]](#footnote-10)** outlines that everyone has the right to access information of public importance, which is held by a public authority body, related to the work of the public authority body or contained in a document. This Law regulates the rights to access information of public importance held by public authority bodies, with the purpose of the fulfilment and protection of the public interest to know and attain a free democratic order and an open society.

The **Law on e-Government** envisages that all beneficiaries of e-government services have the right to access electronic data and documents in the same way and under the same conditions and to be equal in exercising this right. E-Government services are provided to ensure access to persons with disabilities without technical, audio-visual, semantic or linguistic limitations. The Regulation on the further conditions for the development and maintenance of websites of public administration bodies62 elaborates on the accessibility and activities public administration bodies should undertake to make their websites accessible.

* **Grievance Redress Mechanism**

**The Law on Civil Servants** regulates the rights and obligations of civil servants and certain rights and obligations of civil servants. The right of Appeal is regulated under Article 16.

**The Law on General Administrative Procedures** (“Official Gazette of RS” No. 18/2016) provides for the procedures to submit, register, respond to and address grievances but doesn’t explicitly cover the access of vulnerable groups to grievance redress mechanisms or public consultations.

**The Law on Prevention of Harassment at Work**("Official Herald of the Republic of Serbia", No. 36/2010)The employee who considers himself subjected to harassment by the employer or by an official of a legal entity can file a complaint against the employer before the competent court within the period specified in Article 14 Paragraph 2 this law.

* **Working Conditions:**

**Serbia ratified ILO Convention and has a solid legal framework in the sector of employment and working conditions.[[10]](#footnote-11) Government regulations** include the ***Employment Law*,** as the fundamental act regulating this field of law in full, as well as numerous *special laws*, which regulate certain areas of employment in more detail (e.g., the***Law on Protection of Whistleblowers, The Law on Prevention of Harassment at Work****,* ***the Law on Health and Safety on Work***). When establishing an employment relationship, it is mandatory to comply with the obligations not only stipulated under the Employment Law but also of the special laws.

## **Institutional Arrangements and Overview of Implementing Agencies**

This section describes the main information on the division of responsibilities among the different levels of government that are accountable for implementing environmental and social management, including E&S analysis; internal review and clearance procedures; stakeholder involvement in planning and implementation; information disclosure; GRMs; and supervision and oversight, monitoring, and evaluation. rules, and procedures applicable to activities under the Program.

### **Environmental Sector Implementing Agencies**

**Ministry of Mining and Energy** inter alia performs state administration tasks related to the rational use of energy and energy efficiency. According to Article 60 of the Law on Energy Efficiency and Rational Use of Energy, the Minister prescribes requirements regarding energy efficiency in the public procurement procedure. The Department for Energy Efficiency, and Heating Plants, in the field of energy performs work related to the preparation and implementation of programs and other strategic documents in the field of energy efficiency and monitoring the effects of measures to increase efficiency in energy production, distribution and consumption; implementation of projects and measures aimed at increasing energy efficiency. The Ministry of Mining and Energy established the Administration for Financing and Encouraging Energy Efficiency as a body within the Ministry.

**The Ministry of Environmental Protection** *inter alia* performs state administration tasks related to the basics of environmental protection; system of environmental protection and improvement; national parks, inspection supervision in the field of environmental protection implementation of projects from the scope of that ministry that are financed from the funds of the pre-accession funds of the European Union, donations and other forms of development assistance. The flow of special waste streams is supervised by the Environmental Inspectors of MoEP. **The Environmental Protection Inspection of the Ministry of Environmental Protection** carries out inspections related to waste management, environmental impact assessment, air protection, noise protection, water protection, soil protection, chemicals and nature protection. According to Article 54 of the Law on State Administration tasks of inspection supervision can be entrusted to the authorities of the autonomous province, municipality, city and city of Belgrade, which is the case for waste, air, nature protection, and wastewater.

**The Environmental Protection Agency**, as an administrative body within the Ministry of Environmental Protection, with the capacity of a legal entity, performs state administration tasks related to the development, harmonization and management of the national information system for environmental protection (monitoring of the state of environmental factors through environmental indicators environment; register of polluting substances, etc.). Since 2010, the Agency for Environmental protection keeps records on products that become special waste streams, on the management of waste generated after the period of use of these products, are managed by in 2010 and two years later the National Information System was put into operation. The agency inter alia keeps records on the following waste streams tires, batteries or accumulators, oils, electrical and electronic waste. The waste operators should daily and annually report on the special waste streams which is an additional way to control the waste type and quantities. The Agency also keeps records on the licensed waste operators per category of waste and the registry of revoked licenses Since the procedure of monitoring, reporting, supervision and keeping records on special waste streams was established in 2010, it can be assessed that the capacity to monitor special waste flows is sufficient

Ministry of Environmental protection will be responsible for **Subsidies to public and private companies** in the framework of DLI6. These activities are not different from the regular duties of MoEP. MoEP inspectorate supervises and controls waste reuse and quantities and issue verification document for subsidies. An additional possibility to control special waste streams is through a database of the Agency for Environmental protection.

**The Serbian Environmental Protection Agency** continuously implements operational air quality monitoring in the national network for air quality monitoring in the Republic of Serbia. This obligation of the Agency is defined by the Law on Air Protection („Off. Gazette RS” No. 36/09 and 10/13). The pollutants that are being monitored are: SO2, NO2, PM10, PM2.5, CO, Pb and C6H6.

**The Cultural Heritage Institute** guided by the Law on Cultural Heritage is responsible for the protection of cultural monuments, spatial cultural and historical sites, archaeological sites and historic sites.

T**he National labour inspectorate under the Ministry of Labour, Employment, Veterans and Social Affairs (MoLEVSA), is responsible for law enforcement in the sector of OHS**. The Inspectorate has 23 units located in the municipalities of Serbia. The Directorate for safety and health at work is an internal unit of the Ministry which has a basic obligation to take care of the harmonization of national regulations with EU and ILO regulations, collect and analyzes data on injuries at work, occupational diseases, work-related diseases and phenomena which affect the health of employees, supervises the work of legal entities and entrepreneurs as well as from responsible persons with a license and preparing proposals for solutions.

### **Social Sector Implementing Agencies**

Although there is no distinct institution that monitors the involvement of particularly sensitive groups in consultative processes when making budget decisions, pursuant to the Law on Ministries, the following institutions are in charge of social inclusion policies in the Republic of Serbia: **The Ministry of Labour, Employment, Veteran and Social Affairs, the Ministry of Human and Minority Rights and Social Dialogue the Ministry of Health, the Ministry of Education, and the Ministry of Tourism and Youth**.

Also, there are special organizations/institutions which tackle social inclusion policies: **The Coordination Body for Gender Equality of the Government of the Republic of Serbia, the Coordination Body for Monitoring the Implementation of the Strategy for the Social Inclusion of Roma in the Republic of Serbia for the period 2016 – 2025,, the Republic Statistical Office and the Institute for Social Insurance**.

**Following the relevant legislation,** the obligation to ensure free access to information generally applies

to all administrative units. All main implementing agencies have delegated contact persons for access to

information on public importance, and this information is easily accessible on their websites:

Public Procurement Office: <https://www.ujn.gov.rs/kontakt/>

Ministry of Finance :[https://www.mfin.gov.rs/o-ministarstvu/kontakt-podaci-za-lice-za-zastitu- podataka-o-licnosti](https://www.mfin.gov.rs/o-ministarstvu/kontakt-podaci-za-lice-za-zastitu-%20podataka-o-licnosti)

Ministry of Environmental Protection: <https://www.ekologija.gov.rs/kontakt>

Public Policy Secretariat: <https://rsjp.gov.rs/en/contact/>

TA: <https://www.trezor.gov.rs/src/>.

**E- Consultation Portal** (<https://ekonsultacije.gov.rs>) is a part of the broader **E-Government Portal** which has been established and managed by the Office for Information Technologies and E-Government in 2020. This portal is aimed to facilitate active public consultations, public hearings and publication of information related to legislation, strategies and public policies. This unique web spot serves as a tool for direct consultations with interested stakeholders (including citizens, groups, organizations and companies). The **e-Consultation** portal aims to enable the public to participate in the process of preparation and adoption of all public policy documents and regulations electronically (online) in one place. This website was preceded by another portal: <http://javnerasprave.euprava.gov.rs/>.

**Ministry of Environmental Protection** is the main institution in charge Management of Environmental Protection, Green Agenda Protection of Nature and Climate change. This institution is also using a dedicated webspace **gReact** (<https://ekologija.greact.rs/>) for communicating the citizens and stakeholders. gReact is a web application intended for citizens living in the territory of the Republic of Serbia through which they can submit information and requests for solving environmental problems that are present at the local. Citizens directly report all environmental problems to the Operations Centre of the Ministry of Environmental Protection through applications. Through the website, citizens can also receive important warnings about weather-critical natural and communal events that are important for the safety of citizens and property, or for environmental protection (e.g., warnings about adverse weather conditions, fires, floods, accidents involving vehicles for the transport of dangerous goods, etc.).

**National Convention on the European Union** (https://eukonvent.org/), serves as a civil society platform that represents the interests of Serbian citizens in all phases of the European integration process. This Platform was often used by MoF for dialogue with citizens on the ERP and PFM reform process.

National Convention on the EU is an alliance of associations created to maintain and improve dialogue between representatives of the state administration, political parties, non-governmental organizations, experts, businesses, trade unions and professional organizations on Serbia's accession to the European Union. Convention’s mission is to monitor, analyse and evaluate progress in the accession process, to advocate and present to the citizens of Serbia the benefits and costs of membership in the European Union. There are some 750 member organizations included in the Convention, and it represents the largest organized support for Serbia's integration into the European Union.

**The Public Policy Secretariat (PPS**) is the main governmental expert institution in charge of facilitating evidence-based policymaking and is in charge of continual pursuit of regulatory reform to simplify the regulatory framework and abolish redundant administrative procedures. PPS does the analyses, identifies the needs, and forwards initiatives for the development of planning documents through which public policies are formulated. Besides others, the PPS checks and provides to the proponents its formal opinion on whether the prior regulatory/policy impact assessment has been done in a quality way and whether it contains all the necessary information on how much a policy will cost the state, the citizens, and the business sector, and what its specific benefits are so that the costs could be justified. It also checks whether the process of consultations has been carried out in a transparent and participative manner. The PPS offers a dedicated webpage on its website <https://rsjp.gov.rs/en/calls/> for disclosing relevant information, but also a contact form (linked directly from ekonsultacije.gov.rs), where interested individuals/groups can submit an Initiatives on public policy documents. This webpage[[11]](#footnote-12) offers the possibility to anyone interested in, sharing their ideas and initiatives for: a) changing inefficient administrative procedures; b) amending ineffective regulations; c) amending/creating a public policy document; d) Expressing personal aspirations for participation in the working group for the drafting of a public policy document.

**The Budget Department of the Ministry of Finance** has an important role in the fulfilment of the requirement to increase the transparency of budget spending and the public’s understanding of budget planning and expenditures by publishing budget execution reports and civil budget documents.

The public in Serbia is not well acquainted with budget planning or expenditure processes at the central or local level. According to the Open Budget Index,[[12]](#footnote-13) the Serbian Government provides “limited budget information and PforR intervention in this area will be of utmost importance for the social performance of the program. To bring citizens and other interested members of the public closer to the planned use of available budget funds in the current year, the Ministry of Finance has prepared a Citizen's Guide to the budget for 2022. This guide was created with the idea of showing in a simple, easy-to-understand way how the budget funds allocated to the Ministry by the Law on the Budget of the Republic of Serbia for 2022 are determined ("Official Gazette of the RS", no. 110/2021).

In January 2020, the World Bank started the **Joint Initiative for Transparency and Accountability in Serbia.** The overall aim of the Initiative is to identify vulnerabilities that undermine transparency and accountability, and to design interventions for improvements in the field, building on legal and regulatory provisions already in place. By bringing together and facilitating the dialogue between the public, civil society, business sectors and donors, the Initiative sets up a *platform* which is open for new participants and ideas.

**Department for International Cooperation and European Integration (DICEI) of the Ministry of Finance** has a role of the Technical Secretariat of the Public Financial Management Reform Program (PFMR) and coordinates public consultations for the purpose of this Porgram including the PFM policy dialogue meetings with interested stakeholders, and manage e-mail address: [pfmdijalog@mfin.gov.rs](mailto:pfmdijalog@mfin.gov.rs) for consultation purposes. In addition, DICEI coordinates preparation and consultation of the Economic Reform Programme, as public policy document relevant for both PFM and green topics.

**The Ministry of Mining and Energy has engaged the public extensively during the ongoing reform process and the development of the ongoing program of investments in the residential sector.** The engagement modality includes the newly established **National Coalition on Energy Poverty** as well as feedback processes for each legislative and regulatory measure, including the decrees establishing the design and implementation arrangements of the ongoing investment program.

**The National Academy of Public Administration (NAPA)** was founded in 2017 following the Law on the National Academy of Public Administration (″Official Gazette of the RS“, No 94/2017 as of 19th October 2017) NAPAis the central institution of the system of professional development in public administration of the Republic of Serbia. **In its recent program for public administration officials, NAPA** has identified anti-discrimination, gender equality and civil society participation. as key topics to be integrated into the training programs of civil servants.

The PforR provide cross-cutting policy, planning and budgeting engagement with relevant institutions. An overview of the institutions relevant to Program implementation, but also to E&S management system in the country has been provided in the following table.

Table 5: Institutional Responsibilities for Environmental and Social Performance

| Institutions | Institutional Responsibilities in the GoS’s programs | Institutional Responsibilities in PforR |
| --- | --- | --- |
|  |  |  |
| Ministry of Finance | Some of the roles of the MoF include fiscal management, collecting and disbursing public revenues and expenditure, formulating policies on taxation, tariffs, fiscal management, preparing and managing public finances, regulation of source revenues of the autonomous province and LSGs, leading public expenditure policy etc.  Management and supervision of the fiscal and financial system.  Administration of Republic Budget Analysis of fiscal risks, evaluation and monitoring of capital projects.  Regulating the procedure of preparation and registration of capital projects by the competent ministries and their unification.  Administrative supervision in property and legal affairs. | Central Role in management of PforR Operation. Will be supported in Stakeholder and citizen engagement support. |
| Local self-government units | Responsible for the development of spatial plans, SEIAs, construction permits, usage permits, environmental, construction and labour inspectorates, delegated from central government level | No direct responsibilities in PforR |
| Ministry of Environmental Protection | Responsible for overall environment-related management in the country.  Management of Environmental Protection  Green Agenda  Protection of Nature and Climate change | Responsible for the disbursement of environmental subsidies to the private sector and public institutions. Implementing MRV system for Greenhouse gas emission together with SEPA. |
| Serbian Environmental Protection Agency (SEPA) | Implements operational air quality monitoring in the national network for air quality monitoring in the Republic of Serbia. This obligation of the Agency is defined by the Law on Air Protection („Off. Gazette RS” No. 36/09 and 10/13). The pollutants that are being monitored are: SO2, NO2, PM10, PM2.5, CO, Pb and C6H6. | Implementing MRV system for Greenhouse gas emission |
| Ministry of Mining and Energy | Key institution for managing mining and Energy in the country | No direct role in the Program |
| Public Procurement Office | The Public Procurement Office is a special organisation that performs professional activities in the field of public procurement, monitors the implementation of public procurement regulations, participates in drafting laws and other regulations in the field of public procurement and enacts bylaws in the field of public procurement, manages the Public Procurement Portal, records data on public procurement procedures and public procurement contracts, cooperates with domestic and foreign institutions and experts in the field of public procurement in order to improve the public procurement system, provides professional assistance to contracting authorities and bidders, contributes to creating conditions for economical, efficient and transparent use of public funds in the public procurement procedure. | .  The action plan for the implementation of the Public Procurement Development Program (2019-2013) of the Public Procurement Office defines the promotion and encouragement of the environmental aspect in public procurement as a special goal.  In this PfoR, DLI 5 will incentivize and support the actual utilization of green public procurement guidelines by budget users to expand the range of application and support will be provided to PPO in tracking of the use of green criteria in procurement |
| Ministry of Construction, Transport and Infrastructure | Organization and Oversight for Planning and Construction. The implementing institution for Railway Sector Modernisation and Local Infrastructure and Institutional Development project supported by the WB | Will have a significant impact on areas such as public investment management, strategic planning and budgeting and performance management, and overseeing the preparation and implementation of capital projects (notably railways and public transport) |
| Public Policy Secretariat | Upgrading Public Administration capacities through a comprehensive program of training for the entire state administration in the improvement of public policy management process (planning techniques, impact assessment and the usage of data for measuring results, monitoring and evaluation) so that public policies would be oriented to desired results, mutually aligned, and in line with the budgetary framework. | Monitor program implementation and collect evidence about the status of DLIs 2 and 8, which deliver them to the WB. |
| Ministry of Labour, employment Veteran and Social Affairs Labour Inspectorate | Regulating labour and working conditions. | No direct role in the Program |
| Ministry of Human and Minority Rights and Social Dialogue | Promote inclusion and anti-discrimination  Provides support to the CSOs in the process of defining and implementing legislative procedures altogether with public policies | No direct role in the Program |
| The National Academy of Public Administration (NAPA) | Academic Institution in charge of professional development of Civil servants for public administration | Serbia’s National Academy for Public Administration if needed may be involved in the PfoR to capacity building for sustainability aims |

## **Adequacy and Capacity of Environmental Management System**

Serbia’s environmental management system is aligned with core European and international values, such as the sustainable use of natural resources, protection of biodiversity and habitats supporting it, equitable access to ecosystem services, prevention of deforestation and desertification, curtailing of environmental pollution from toxic substances and plastics, mitigating climate change and adapting to its impacts, and embracing digitalization and advanced technologies for low-emission green development. Serbia is a signatory to most international and regional environmental treaties, including the Aarhus convention on Access to Information, Public Participation in Decision-Making.

When it comes to the subsidies under MoEP’s budget related to incentives for preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of ecologically acceptable cars, current environmental legislation and procedures are appropriate for this type of project. Resulting from the size and type of disbursed funds the conclusion is that MoEP has sufficient capacity to implement this project component. The application forms include sufficient data for environmental screening, monitoring, supervision, ownership, size and type of legal entities, inspection supervision and exclusion criteria on the ground of non-compliance with environmental regulations which is sufficient to award and monitor the subsidies disbursement. Proper information of the public is ensured through public calls with transparent awarding criteria, publishing of preliminary and final lists with explanatory notes, all of which are published at MoEP web site. OHS risks related to workers handling waste in recycling procedures are covered by the Law on Occupational Health and Safety. The Labour Inspectorate of the Ministry of Labour is responsible for supervision of OHS standards and it has sufficient capacity to carry out the project related assignments. Though the Law on Environmental Assessment, Strategic Environmental Impact Assessment, Waste Management Law, the Law on Occupational Health and safety, Serbia has appropriate regulatory framework to properly implement the project.

## **Adequacy and Capacity of Social Management System**

This section discusses institutional responsibilities and existing capacity for the implementation of social risk governance, particularly in areas applicable to the Program, which assume social risk assessment, implementation of consultation requirements, stakeholder involvement in planning and implementation, communications and disclosure strategies, GRM and inclusion of vulnerable groups.

Serbia has not established yet an integrated policy and legislation regarding the assessment and management of social risks related to investment projects. Consequently, there is no single institution that would systematically monitor all aspects of social impacts and risks associated with policy reform processes or specific investment projects. Instead, there is a general regulatory framework and institutions in charge of monitoring various aspects of potential social risk. In this regard, there are no differentiated measures to ensure that the negative impacts do not fall disproportionately on the vulnerable and disadvantaged groups, nor that they share the development benefits and opportunities arising from the project. Instead, Serbia relies on social laws and policies to guide and prevent potentially adverse social impacts of proposed projects. **The existing regulations do not explicitly cover the access of vulnerable and disadvantaged groups to grievance mechanisms or public consultations.** There is no mechanism for monitoring the effects of the policy reform on vulnerable groups, to understand to what extent have the outcomes generated been relevant to improvements in the quality-of-service delivery, particularly for disadvantaged and vulnerable groups. Serbia adopted the first PFM RP in 2015, and since then significant progress has been made in the development of the policy and legal framework towards improved stakeholder engagement in the planning and implementation of public policy reforms ,This is evidenced by the passing of numerous laws,sstrategies and other public policy documents, and guidelines among which the most important are the Law on the Planning System of the Republic of Serbia, (the Regulation on the Methodology of Public Policy Management,[[13]](#footnote-14)) bylaw of the Law on Public Administration, (the Rulebook on the Guidelines for Good Practice for Public Participation in the Preparation of Draft Laws and Other Regulations and Acts)[[14]](#footnote-15)The Law on State Administration, Law on Local Self Government and Guidelines for the inclusion of civil society organizations in working groups for drafting proposals for public policy documents and drafts, i.e. proposals for regulations ("Official Gazette of RS", no. 8/20 and 107/21). In Serbia, access to public information is guaranteed in the Constitution and protected by the Law on Free Access to Information of Public Importance. All these regulations prescribe access to information and the mandatory implementation of consultations at all stages of the preparation of regulations and public documents. Nonetheless, the practice has shown that even when there are legally established mechanisms for public participation in decision-making processes, including GRM, these mechanisms are not taken seriously by some public bodies that focus only on meeting formal conditions for citizen participation.

The main performance gaps being discovered through this assessment relate to Core Principles #1 and #5 and are relevant to the inclusion of vulnerable groups and the overall effectiveness of the current consultative practice. Both leading implementing agencies MoF and MoEP have made efforts to increase their capacity and improve interagency coordination between several state agencies under their mandate, but there are still areas to be strengthened.

In relation to PFM consultations still there are areas to be improved. To comply with Core Principles #1 and #5 of the PforR. the engagement process for this program will most probably include (i)Engagement and consultation with government stakeholders on what improvements are most critical, achievable, and in need of further effort; and (ii) Engagement and consultation with the public and non-government stakeholders to achieve a desirable level of transparency and accountability in the reform PFM for green delivery. Previous experience showed that the budgetary process and language used in the communication appear not to be sufficiently transparent and overcomplicated for citizens thus resulting in citizen disinterest in this matter. Functional GRM and other engagement mechanisms to ensure two-way communication with citizens are yet to be established.

After comparing the current practice of the MoF and MoEP in disclosing information, engaging stakeholders and including vulnerable groups, with ESSA international good practice and Core Principles No. 1 and No. 5, the following can be concluded:

i)The current system should improve the targeting of citizens and/or civil society organizations, and in particular vulnerable groups; (ii) Engagement formats should be adapted to different categories of possible stakeholders; (iii) Published information should be sufficiently transparent, regularly updated timely disclosed and comprehensive; (iv) Information should be easily accessible and presented in a user-friendly manner; (v) Functional GRM and other engagement mechanisms to ensure two-way communication should be established; (vi) A scoping concept note should be developed to show the linkage, connection, and/or complementarity between various governmental platforms that focus on mapping services and measuring satisfaction; (vii) Monitoring indicators on the effect of planned PFM Reform on a vulnerable population, women, and people with disability should be developed; (viii) The system should ensure regular monitoring and reporting on stakeholder engagement activities; and (ix) For improved accountability and public trust, all efforts invested in stakeholder engagement and improved transparency and accountability should be promoted through various channels.

To some extent, the Program addresses fiscal transparency, gender and green budget reporting but it is necessary to further strengthen existing capacities for effective consultations with interested parties, especially for the inclusion of vulnerable citizens. This can be implemented through the creation of a stakeholder plan, and engagement of Stakeholder Engagement (SE), Citizen Engagement (CE) and Communications experts who will provide handholding support to relevant ministries.

To some extent, the program addresses fiscal transparency, gender and green budget reporting but it is necessary to further strengthen existing capacities for effective consultations with interested parties and ensure inclusion of vulnerable citizens. The existing capacity can be strengthened by introducing a stakeholder plan, and involving SE, CE and communications experts. Furthermore, the program Expenditure framework foresees the provision of funds for the renovation of public buildings. Although overall responsibility for rehabilitation works is with the Ministry of Energy and Mining, MoF as the main coordination entity would need to ensure that MoME and selected contractors adhere to national legislation but also to the main provisions of the Core Principle 3.

Although MoF’s DICEI has adequate coordination expertise, still may face challenges in ensuring sufficient human resources are available for all program activities. Due to the expected working overload to be imposed on the PCU Staff, the program would benefit from the engagement of qualified Social, Communication and CE expertise to assist the MoF in ensuring the good social performance of the Program.  Ministry of Environmental Protection as a key implementation partner has experience in social risk management as it has been regularly engaged in such processes during various EIA-related consultations with relevant non-governmental organizations for environmental protection. However further improvements are needed in targeting and inclusion of vulnerable groups in the engagement process.

The current capacity of other implementing agencies to manage social risks varies depending on their previous exposure to the programs supported by the World Bank and other donors. Most commonly the responsibilities for social considerations in project preparation and management are not specified, and the entities do not have in-house social capacity. Consequently, organizational capacities to effectively manage citizen engagement and to ensure the inclusion of vulnerable groups in the consultative process are limited. As far as concern current systems for handling complaints, all institutions do have GRMs in place which are tailored to the needs of a given institution but are not sufficiently equipped to address all potential E&S issues that may arise during program implementation. These separate GRMs do not cover E&S topics concerning the entire program and this represents a lower implementation risk which should be mitigated through establishment of program level GRM.

MoME has been supported by the World Bank in the Scaling up Clean Residency Program and is expected to apply social management practice to this Program as well.

MOCTI is involved in the World Bank’s Local Infrastructure and Institutional Development and Railway Sector Modernisation Programs. Therefore, both Ministries are familiar with World Bank E&S procedures and are gradually upgrading their social management systems.

Regarding all institutions involved main capacity constraints are twofold: (i) lack of number of staff, to sufficiently cover Program activities in a timely and high-quality manner; (ii) lack of expertise among staff in managing the social dimensions of the Program.

Some of the gaps are being addressed under several DLIs (improved fiscal transparency, gender budget tagging and improved capacity in stakeholder engagement on MRV system) as well as through the provision of TA under IPF component. TA needs to be carefully planned and coordinated among different institutions to meet recognised gaps and adequately address the most pressing needs of the program.

# **CONCLUSION**

Overall environmental and social effects of the Program are expected to be positive in terms of improved green budgeting and reporting. Serbia has made significant efforts to improve the functioning of its social risk management systems in recent years. The main areas to be improved are targeting vulnerable and disadvantaged groups and giving voice to citizens to express their views and concerns on green budget. This will require to build further the capacity of some of the implementing partners to comply with the relevant ESF requirements, (as part of the IPF),in the areas of stakeholder and citizen engagement and inclusion of vulnerable groups.

On the technical side, to fill the gaps between the existing ESMS and international good practice identified through this ESSA, the Program will support specific measures to enhance the performance of the ESMS related to the engagement process and social inclusion of vulnerable groups, and all those who are interested in the green and finacial reform topics.These measures will be implemented through a set of actions, some of which are already part of ESCP, (under IPF/TA), and others are part of the PforR Action Plan.

# **ESSA Program Action Plan**

**ESSA Program Action Plan**

**This ESSA identified gaps between the existing ESMS and international good practice, which the Program will fill by supporting specific measures to enhance the performance of the ESMS**. These measures will be implemented through the actions summarised in Table 1.

Table 1.Program Action Plan and measures included in ESCP

| **Action Description** | **Timeline** | **Responsibility** | **Measures included in ESCP/IPF component** | **Completion measures / verification** |
| --- | --- | --- | --- | --- |
| Prepare POM | Draft POM prepared prior to Negotiations | MoF | Included in the PfoR Action Plan | POM reviewed and accepted by the Bank |
| Appoint qualified environmental, social and CE, and communication specialist(s), as needed, on part time basis to strengthen environmental and social capacity of MoF and MoEP | No later than 120 days after the Effective Date, but prior to commencement of renovation works. | MoF PCU | Included in ESCP | ToRs drafted and approved. Appointment letters issued or employment contracts with environmental, social and CE/ communication specialist(s) signed. |
| Establish Program level GRM and instruct participating government institutions to report concerns related to the Program activities to PCU who will keep and manage a central grievance log. | Operationalize GRM no later than 30 days after the Effective Date. | MoF PCU Social Specialist | Included in ESCP | Program Operational Manual includes the provisions in GRM.  Grievance contact person assigned, the information on the presence of the GRM and how to submit GRM published on MoF official website. |
| Adopt and implement Stakeholder Engagement Plan (SEP) with elements of communication plan to clearly define the main stakeholders and adapt engagement communication channels and methods to specific needs of each stakeholder group. | Prepare main provisions of SEP later than 30 days after the Effective Date and implement throughout the Program | MoF PCU Social Specialist | Included in ESCP | The main provisions of SEP integrated in the POM |
| Upgrade existing communication formats and channels to:  a) disclose relevant information in a timely and user-friendly manner  b) accommodate the needs of vulnerable groups (example visually impaired person)  c) collect beneficiary feedback on green investments. | No later than 10 months after the Effective Date | MoF PCU Communication Expert | Not included in ESCP  Included in the PfoR Action Plan | Existing CE platforms contain dedicated sections on green investments and are technically equipped for accommodating the needs of vulnerable groups. |
| Undertake environmental and social screening of designs for the rehabilitation targeted buildings to filter out substantial or high-risk civil works, and subsequently prepare ESMP checklists with mitigation measures. | Prior to the commencement of rehabilitation works in public buildings after the Effective Date | MoF PCU E&S Specialist | Included in the PfoR Action Plan | Environmental and social screening checklist and ESMP checklist, satisfactory to the Bank, developed, included in the POM and applied to rehabilitation works. |
| Make a positive decision on environmental and social compliance reports a precondition for the final payment of contractors. | After finishing of renovation works | MoF PCU E&S Specialist | Included in the PfoR Action Plan | E&S Compliance report prepared by MoF PCU in coordination with MoME |
| Ensure universal access to all public buildings to be rehabilitated under the PforR. | Prior to the commencement of rehabilitation works in the selected public buildings | MoF, MoME, and (MoCTI) | Included in the PfoR Action Plan | Environmental and social screening of each public building prior to works will identify the presence and adequacy of universal access facilities. In case of their absence, the provision of universal access will be included in the scope of the rehabilitation works, if technically feasible. |
| Use Technical Assistance under IPF to provide additional training on SE/CE and communication including with vulnerable groups | During Program implementation | MoF PCU CE and Communication specialist through IPF /TA | Not included in ESCP  Included in the PfoR Action plan. | Training reports |

# Annex 1. Bibliography

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| --- |
| Law on Environmental Impact Assessment |
| Law on Strategic Environmental Impact Assessment |
| The Rule book on conditions, contents and method of issuing certificates on energy characteristics of buildings |
| The Law on energy efficiency and rational use of energy |
| Law on cultural heritage |
| The Law on Occupational Health and Safety |
| 2021 Operations Report of the Directorate for safety and health at work |
| Informative bulletin, MoEP, October 2022 |
| Budget for 2022 MoEP |
| Rule book on the format of daily records keeping and on annual report on waste (OGRS 95/2010, 88/2015, 07/2020) |
| Regulation on the conditions and method of implementing the subsidized purchase of new vehicles that have an exclusively electric drive, as well as vehicles that, in addition to the internal combustion engine, are also powered by an electric drive (hybrid drive) (OGRS 156/2020 and 53/ 2021) |
| Regulation on the amount and conditions for awarding incentives (OGRS 88/2009, 67/2010, 101/2010, 86/2011 and 35/2012)  Regulation on the detailed conditions that must be met by the users of the funds, the conditions and method of distribution of funds, criteria and criteria for evaluating requests for the distribution of funds, the method of monitoring the use of funds and contracted rights and obligations, as well as other issues of importance for the allocation and use of funds of the Green Fund of the Republic Serbia (OGRS 25/2018) |
| Rule book on the method and procedure of risk assessment in the workplace and in the working environment (OGRS 72/2006, 84/2006, 30/2010 and 102/2015) |
| Application forms for subsidies re-use of waste and for soil remediation 2021 and 2022 |
| **The strategy for creating a stimulating environment for the development of civil society in the Republic of Serbia for the period from 2022 to 2030 (Official Gazette no 23/2022)** |
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| **Programme for improving public policy management and regulatory reform for the period 2021-2025** (Official Gazette no. 113/21). |
| **Public Financial Management Reform Programme 2021-2025** (Official Gazette RoS no. 70/21) |

# **Annex 2: Exclusion Criteria**

In line with the World Bank PforR Policy requirements, the Program will exclude any activities that are likely to have significant, sensitive, diverse or unprecedented impacts to the environment and/or affected people including significant land acquisition, economic or physical displacement or changes in land use; significant impacts to critical cultural heritage sites or natural habitats. Activities that would involve any of the following consequences will be excluded:

* Significant conversion or degradation of critical natural habitats or critical cultural heritage sites;
* Air, water, or soil contamination leading to significant adverse impacts on the health or safety of individuals, communities, or ecosystems.
* Workplace conditions that expose workers to significant risks to health and personal safety, such as projects requiring major works in confined spaces (such as tunnels); or projects with high risk of exposure to toxic chemicals (such as mines)
* Land acquisition and/or resettlement of a scale or nature that will have significant adverse impacts on affected people2 or the use of forced evictions
* Large-scale changes in land use or access to land and/or natural resources;
* Adverse E&S impacts covering large geographical areas, including transboundary impacts, or global impacts such as greenhouse gas (GHG) emissions;
* Significant cumulative, induced, or indirect impacts;
* Activities that involve the use of forced or child labor;
* Marginalization of, or conflict within or among, social groups; or
* Activities that would have adverse impacts on land and natural resources subject to traditional ownership or under customary use or occupation

Normally those consequences are likely to be associated with the below activities, therefore, such activities will be excluded from the PforR:

* Power plants;
* Major transport infrastructure—for example, new highways, expressways, urban metro systems, railways, and ports;
* Operations in mining and extractive industries;
* Commercial logging or large-scale forest-products-processing operations;
* Large-scale water (surface and groundwater) resource infrastructure, including greenfield dams, or activities involving the allocation or conveyance of water, including inter-basin water transfers or activities resulting in significant changes to water quality or availability;
* Manufacturing or industrial processing facilities associated with high levels of pollution
* Modification of World Heritage sites
* Displacement of archaeological sites from their original locations

# **Annex 3: Key stakeholders consulted during program preparation**

| Stakeholders | RA1 | RA2 |
| --- | --- | --- |
| Government Stakeholders | |  |
| Central Government | * Ministry of Finance (MoF) (Budget Department BD, Fiscal Risk Monitoring Department -FRMD, Macro-Fiscal Department MFD), * Public Policy Secretariat (PPS) * Public Property Directorate (PPD) | * Ministry of Environmental Protection (MoEP) * Public Policy Secretariat (PPS) * Ministry of Construction, Transport and Infrastructure (MoCTI- through current Project engagement with WB on Serbia Railway Sector Modernisation) * Ministry of Finance (MoF) * Ministry of Mining and Energy (MoME- through current Project engagement with WB on Scaling up Residential Clean Energy Program) |
| Non-Government Stakeholders | |  |
| NGOs | Belgrade Open School, Koalicija 27, RERI, CEP, Transparency Serbia | Belgrade Open School, Koalicija 27, RERI, CEP, Transparency Serbia |
| Development partners | ADF - Agence France de Development | ADF - Agence France de Development |

# **Annex 4:** **Summary of ESSA Stakeholder Consultations**

**Introduction**

Serbia’s PforR Improving Public Financial Management for the Green Transition (P175655) draft Environmental and Social Systems Assessment (ESSA) prepared by the experts of the World Bank was disclosed in English on the World Bank website on January 10, 2023, and on MoF website in Serbian and English language on January 16, 2023. Interested parties were invited to submit their comments on draft ESSA document until January 23, 2023. The consultation meeting was held in MoF’s premises on January 19, 2023.

**Initial stakeholder consultation meetings.**

To develop a better understanding of implementation practices, procedures, standards and the approach for this Program, in the period from October to December 2022, the Bank team carried out meetings with various stakeholders, including employees in the Ministry of Finance (MoF) and the Ministry of Environmental Protection (MoEP), as well as representatives of Public Policy Secretariat (PPS), and civil society organizations (Belgrade Open School, Koalicija 27, CEP, Transparency International Serbia and Renewables and Environmental Regulatory Institute (RERI)).

These initial stakeholder consultation meetings informed key ESSA findings, contributed to formulating the ESSA Program Action Plan and impacted the design of the Program.

Ten days before the final consultative meeting (which was held on January 19, 2023 in the premises of the Ministry of Finance, Kneza Miloša 20, Belgrade ), the World Bank's team delivered the ESSA draft in Serbian and English to the interested parties, so that they could submit their suggestions and comments.

After a brief introduction to PfoR Improving Public Finance Management for the Green Transition, the main findings and the proposed ESSA Action Plan were presented. Received comments regarding the content of the ESSA have been adopted.

Numerous questions were posed regarding the design of the program and the implementation plan of the IPF and PfoR components, as well as the Bank's standards in the areas of environmental protection, social dialogue and grievance mechanism.

**Main Findings**

Although citizen engagement is not a central theme of PfoR (which is largely focused on upgrading the existing public finance system), stakeholders agreed that ESSA's conclusions on the need to improve current practices in-stakeholder consultations, through more intensive inclusion of vulnerable groups in discussions on public finance reforms and green policies and investments, are important but that they are limited to the areas of interest of these groups.

The participants emphasized that one of the key challenges is how to motivate the general public, especially vulnerable groups of the population, to join the discussion on topics related to the reform of public finances, taking into account the administrative character of these reform processes. In order to improve this practice, the Ministry of Finance informed that training in the field of public finance management reform for interested civil society organizations is planned in February 2023, in order to improve their knowledge and motivate more active participation in discussions on topics related to this area, and that a revision of the planning document Public Finance Management Reform Program is planned this year, which would include green elements in this reform process.-

The Ministry of Finance included Ministry of Human and Minority Rights and Social Dialogue to give its opinion on how to include vulnerable groups in the consultative process which may be useful in the field of public finance management reform and green issues. A proposal was made that instrument for the implementation of the principle "Leave no one behind" is applied in current practice of social system management. The instrument is the result of the work of the Working Group consisting of the OHCHR in Serbia, the Ministry for Human and Minority Rights and Social Dialogue, the Republic Secretariat for Public Policies, the Commissioner for the Protection of Equality, the Centre for Democracy Fund, the National Convention for the EU, the Academic Community and civil society organizations. The national partnership presentation of this instrument was organized on September 22, 2022 in Belgrade, and is part of the broader commitment of the Republic of Serbia in the process of implementing the UN Sustainable Development Agenda in 2023.

The participants made the following comments and suggestions so that the activities proposed by the action plan could be implemented in the most efficient way:

* Vulnerable groups should be included in the discussion on topics which are important to them and which are related to public finance reform and green investments;
* It is necessary to find the most suitable method for selecting civil society organizations and/or vulnerable segments of the population that might be interested in a certain topic;
* The current way of engagement, including the information disclosure practice, can be further adapted to meet the needs of different groups of citizens (for example adapting existing platforms to blind and visually impaired persons);
* The World Bank should facilitate the exchange of experience and best practices for the involvement of the vulnerable and disadvantaged groups of population in topics related to the reform of public finances and green investments (for example through study tours, training etc).

Stakeholders who responded to the invitation to participate in the consultation process are:

The Ministry of Finance

* The Ministry for Human and Minority Rights and Social Dialogue
* The Ministry of Environmental Protection
* The Ministry of Mining and Energy
* The Public Policy Secretariat

Civil society organizations were also invited to the consultative meeting, but they did not respond to the invitation.

ESSA was revised and updated based on suggestions received during the consultations.

1. Decree on conditions for allocation, criteria, use and monitoring of funds from the Green Fund (Official Gazette 25/18); Rulebook on conditions for allocation and use of funds from the Green Fund (Official Gazette 31/18); Decree on subsidized purchase of electric and hybrid cars (Official Gazette 53/21) [↑](#footnote-ref-2)
2. Work informant of the Ministry of Environmental Protection, October 2022 [↑](#footnote-ref-3)
3. **Law on the Planning System of the Republic of Serbia** Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents ("Official Gazette of RS", No. 8/19) [↑](#footnote-ref-4)
4. Bylaw of the **Law on Public Administration,** the **Rulebook on the Guidelines for Good Practice for Public Participation in the Preparation of Draft Laws and Other Regulations and Acts** ("Official Gazette of RS", No. 8/19) [↑](#footnote-ref-5)
5. Decree on conditions for allocation, criteria, use and monitoring of funds from the Green Fund (Official Gazette 25/18); Rulebook on conditions for allocation and use of funds from the Green Fund (Official Gazette 31/18); Decree on subsidized purchase of electric and hybrid cars (Official Gazette 53/21) [↑](#footnote-ref-6)
6. Informative Bulletin of the Ministry of Environmental Protection, October 2022 [↑](#footnote-ref-7)
7. Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents ("Official Gazette of RS", No. 8/19) [↑](#footnote-ref-8)
8. Official Gazette of RS, number 104/16 [↑](#footnote-ref-9)
9. Official Gazette of RS, no. 120/2004, 54/2007, 104/2009, 36/2010 and 105/2021 [↑](#footnote-ref-10)
10. Serbia has been a member state of the ILO since the year 2000. The country has ratified [77 ILO International Labour Standards](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:102839) (Conventions), including all eight fundamental conventions. [↑](#footnote-ref-11)
11. https://rsjp.gov.rs/en/initiatives-of-economy-and-citizens/ [↑](#footnote-ref-12)
12. Note 5: “Serbia,” Open Budget Index, International Budget Partnership,<http://bit.ly/2g7gzGW>]  [↑](#footnote-ref-13)
13. **Law on the Planning System of the Republic of Serbia ("Official Gazette of RS", No. 30/18) and** Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents ("Official Gazette of RS", No. 8/19) [↑](#footnote-ref-14)
14. Bylaw of the **Law on Public Administration,** the **Rulebook on the Guidelines for Good Practice for Public Participation in the Preparation of Draft Laws and Other Regulations and Acts** ("Official Gazette of RS", No. 8/19) [↑](#footnote-ref-15)