

## Serbia needs to boost environmental investment by EUR 500 million annually to tackle “critical” situation - Fiscal Council

The Fiscal Council has called for significantly stepping up investment in environmental protection in Serbia, noting that there is ample room to do so through the 2019 state budget now that the country’s public finances have stabilized. Serbia is one of the most polluted countries in Europe, which is jeopardizing the health of the population and putting brakes on economic growth, the fiscal watchdog said.

Serbia has already missed the opportunity once to tackle pollution with hefty environmental investment - when it had a budget surplus in 2006 following an arrangement with the International Monetary Fund, the Fiscal Council said. The watchdog warned against missing this fresh opportunity now that public finances have been steered into “calmer waters,” noting that these investments are needed not only in the context of Serbia’s EU integration, but also in order to improve people’s health and help accelerate the country’s GDP growth.

### Catching up with CEE

Serbia is “chronically lagging behind” Central and Eastern European countries in terms of GDP growth, registering rates of around 3% compared to over 4% on average in CEE, and this is mainly due to insufficient investment in environmental protection - as Serbia sets aside only 0.7% of GDP, CEE spends about 2% of GDP on average, the council said.

The piled up environmental and related infrastructural problems in Serbia require investments of about EUR 8.5 billion in the next 10-15 years - and the country needs to boost the investment level by 1.3% of GDP, or EUR 500 million, annually, to catch up with the CEE region. This will require consolidating local governments’ budgets, reforming local public utilities, and cutting subsidies for flagging local public companies by EUR 100 million, or 0.3% of GDP, annually, the council said.

The watchdog warned that Serbia’s public power utility Elektroprivreda Srbije alone will have to invest around EUR 1 billion in environmental protection in the next 10 years or so, which will prove “difficult” if the company’s reform keeps being pushed back.

### Situation in all environmental areas “critical”

The situation in all environmental areas is “critical,” the watchdog said, noting that of all chapters of EU membership negotiations, chapter 27, which deals with the environment and which Serbia is yet to open, is the area where the country has made the least progress in meeting the bloc’s standards.

The biggest infrastructural problems are found in the water supply and wastewater sector, with the largest cities - Belgrade and Novi Sad - releasing untreated wastewater into the Danube and Sava rivers and 40% of public waterworks supplying water not fit for human consumption. The water sector requires the biggest chunk of the needed investments in environmental protection - as much as some EUR 6 billion, the Fiscal Council said.

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“The most visible” environmental problem in Serbia is the country’s poor waste management, with only 80% of municipal waste collected (down from the average 95% in CEE) to be taken mostly to unsanitary landfills, while the remainder ends up in wild dump sites and water sources. And whereas about 50% of municipal waste is already treated in CEE - the percentage is even higher in the entire EU, at some 75% - Serbia treats almost none, as recycling, waste-to-energy production, and composting is underdeveloped in the country. Industrial waste is also a problem, with hazardous waste often ending up in unsecured locations, while former state and socially-owned companies’ piled-up waste is estimated at over 100,000 metric tons. The waste treatment sector requires an estimated EUR 1.5 billion in investment, according to the fiscal watchdog.

Air pollution is a particular challenge, with EPS being the top polluter, partly due to its dependency on coal for electricity production and partly due to insufficient investment to fight air pollution. In major cities, public transit operators contribute significantly to air pollution, led by Gradsko Saobraćajno Preduzeće in Belgrade.

Of a total of some EUR 2.3 billion in investments needed to fight air pollution, EPS will need to invest about EUR 650 million over the next 10 years - twice as much as it has over the past period - while around EUR 100 million will be needed to modernize GSP’s fleet, the council said.

The needed investments in cleaner district heating systems are estimated at about EUR 550 million - EUR 330 million of which for heating plants to switch to natural gas, biomass, or municipal waste for fuel and EUR 220 million to overhaul and expand the heating network. Systemic measures needed to drive change

The Fiscal Council made several recommendations on how to tackle the daunting task at hand, including to divert some EUR 100 million in environmental protection fees collected annually to the Ministry of Environmental Protection, which currently has a EUR 50 million annual budget. The funds could be used for producing project documentation or co-financing local governments’ projects, the watchdog said.

Outdated strategies need to be revised and the Ministry of Environmental Protection needs to be given more power, which should include enabling the ministry to control local utility companies to a certain extent. At the same time, local utility companies should be restructured in order to strengthen their investment capacities. This should involve rightsizing, improving bill collection, and raising prices of utility services.

The Fiscal Council also advised improving the coordination of state and local authorities and companies, strengthening human resources, and developing a monitoring system.

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