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Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 10/21/2021 | Report No: ESRSC02382

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BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Serbia	EUROPE AND CENTRAL ASIA	P176770	
Project Name	Serbia Residential Clean Energy and Energy Efficiency Scale-Up Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Energy & Extractives	Investment Project Financing	2/1/2022	11/3/2022
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	Ministry of Mining and Energy		

Proposed Development Objective

Enhance the availability and affordability of energy efficiency, sustainable heating, and rooftop solar for households in Serbia.

Financing (in USD Million)	Amount
Total Project Cost	50.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The project aims to increase the uptake of clean energy and energy efficiency investments in the residential sector in Serbia, with a focus on lower-income households. Increased investments in clean energy and energy efficiency will contribute to reducing the energy and carbon intensity of the residential sector, improving air quality in urban settings, and increasing heating comfort levels of lower-income households.

The project will be structured around two components: (i) financing partial grants for energy efficiency, sustainable heating, and rooftop solar investments in residential buildings; and (ii) supporting the development of scalable

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financing mechanisms and removing market barriers, through capacity building, awareness campaigns, and technical studies.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

Serbia is located in Central and Southeastern Europe on Balkan Peninsula with surface area of 88,499 km2, border length of 2,026 km and population of approximately 7,2 million citizens. Serbia includes 30 districts with 198 municipalities.

Serbia is a landlocked country rapidly managing evolving political and economic background after having passed through dramatic transitions and is now a candidate country for accession to the European Union. Since 2016 there is a strong political will and commitment to reforms across the key sectors including energy. Some of the country policy priorities are expanding access to clean energy, reducing disparities by improving access for marginalized group through subsidies and incentives, and overall impact on population health and well-being.

The COVID-19 pandemic and related containment measures have taken a heavy toll on the Serbian economy. The Government of Serbia (GoS) is scaling up green investments to spur the post-COVID recovery and build resilience against future shocks, especially among its most vulnerable citizens. The Budget for 2021 has set aside close to EUR 2.2 billion for energy efficiency, sustainable heating, district heating rehabilitation, green recovery and growth, mining, sewer network construction, wastewater treatment, and solid waste management projects and programs. The GoS has also formed a National Coalition on Energy Poverty, a dedicated advisory body, whose objective is to contribute to strengthening the regulatory and policy framework to reduce negative impacts of the anticipated changes in the energy sector on vulnerable citizens. One of its first activities has been to revise the Decree on Energy Vulnerable Consumers and expand its coverage, leading to an estimated doubling of beneficiaries from 2022. Such an approach towards 'green' investments will contribute to Serbia's ambitious climate change mitigation commitments.

The project focuses on clean energy initiatives for households, construction companies and can partner with commercial banks. It also finances technical and policy related studies. The focus on residential energy carries social challenges, such as affordability of poor and vulnerable households. In 2019, almost 10 percent of Serbian households reported that they could not keep their home adequately warm. Serbian households spend about three quarters of their energy budget (and 9 percent of the total household budget) for space and water heating, which makes them vulnerable to changes in the price of the different energy products used for heating (coal, wood, electricity, district heating). Energy affordability is of particular concern for rural households: over 23 percent of Serbian households are at risk of poverty, but this rate increases to 34 percent in rural areas. The Decree on Energy Vulnerable Customers 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 Energy Law has extended this subsidy to vulnerable households connected to district heating systems. In addition, some cities provide additional support like subsidies at the municipal level. The MoME is currently developing a new draft regulation to enhance and expand protection of energy vulnerable customers, thus further mitigating existing energy poverty as well as anticipating future changes in the sector. Another challenge is low awareness which needs to be boosted through good stakeholder consultation and campaigns.

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D. 2. Borrower's Institutional Capacity

Overall, the Ministry of Environmental Protection (MEP) is the main state body for environmental protection management. Distributed across several sectors, MEP has a clearly defined scope of work, such as but not limited to: Inspection supervision in the field of environmental protection; Implementation of the Convention on Public Participation, Access to
Information and the Right to Environmental Protection; Determining the conditions for environmental protection in spatial planning and construction; Waste management; Creating conditions for access and implementation of projects financed from the pre-accession funds of the European Union; and donations and other forms of development assistance. Besides MEP, the Serbian Environmental Protection Agency (SEPA) has a very significant role. It is a body within the Ministry of Environmental Protection, in charge of the monitoring the state of environmental factors and implementing state monitoring of air and water quality, including prescribed and harmonized programs for quality control of air, surface water, and groundwater. In January 2020, after years of preparation, Serbia has submitted a negotiating position to the European Commission for Chapter 27 - Environment and Climate Change in EU Accession Negotiations. In the area of horizontal legislation, Serbia has a high level of alignment with the EU acquis. The ban on employment of new staff in the public sector has generally been the policy for years, as a measure to control public expenditures, but as from January 1st, 2021 this ban was lifted, so the capacity building is expected in all areas, including the environment.

The Ministry of Mining and Energy (MME) will be the implementing entity for the operation, with technical unit within the MME - Energy Efficiency Administration (EEA), which will be the Project Implementation Unit (PIU) expected to be formed in October 2021, supported by the Central Fiduciary Unit (CFU) in the Ministry of Finance (MoF) and supplemented by employees in the municipalities officially assigned to the project. The PIU will be established as administrative authority within the MME, a semi-independent body with a separate legal personality, managed by a civil servant (Director) directly responsible to the Minister. The PIU will need to be adequately staffed in order to manage this and other new financing projects. The MME does not have previous experience with the World Bank ESF implementation, thus the PIU will hire or appoint one environmental specialist and one social specialist and this commitment will be included in the ESCP. The obligations of the specialists will include oversight of environmental and social issues within the Project. Given that the Project will be implemented at national level, support and involvement of the relevant LSGs will be necessary. Majority of the LSGs in the country already have staff/departments which could cover these documents' preparation/implementation (e.g., department for ecology, department for communal issues, department for environment protection, etc.), with proper training on ESF requirements and with the support of the PIU. This will be detailed in the ESMF alongside with the modality of the preparation of relevant documents. Furthermore, the Contractors, assigned to carry out sub-project activities, will be obligated to apply all the measures prescribed in the prepared documents, ESMP/ESMP checklists. Supervision of the site-specific measures' implementation will be done by LSGs with oversight from the PIU's environmental and social specialists..

It is also expected that enhanced oversight from the Bank E&S team will be required and a capacity assessment and rate of progress of implementation will identify where training and further capacity building will be needed.

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II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating Moderate

The project is not expected to have significant negative environmental impacts ad risks. On the contrary,it will impose positive impacts in the long run given its overall green and energy efficiency footprint. However, it is entailing some potential short-term risks and potential adverse impacts, mostly related to infrastructure investments under Component 1. This Component envisages financing energy efficiency, sustainable heating, and rooftop solar investments in residential buildings, which will include small scale work on already existing facilities (single-family houses, multi-apartment buildings with less than five floors and multi-apartment buildings with at least five floors) and depending on the type of the facility, the project envisages what type of interventions could be entailed with chosen type of facility. At this stage, potential interventions that could be included are insulation of walls and roof ceiling, replacement of windows and exterior doors, the replacement of coal- and biomass-fired boilers with cleaner, more efficient heating technologies, and the installation of solar collectors for sanitary hot water and rooftop solar photovoltaics (PV). The exact locations of these interventions/facilities are yet to be determined, but all works are envisaged to be carried out within the scope of existing facilities' footprint. In this regard, the potential environmental risks and adverse impacts that could be identified are (i) impacts on ground and surface water, soil and air contamination (dust and noise); (ii) occupational health and safety (OHS) issues and access to work sites; (iii) inadequate waste management. . Components 2 should have no significant environmental impacts as it is focusing on TA, strengthening policies and practices. The Borrower's capacity is adequate and its commitment to managing adverse environmental impacts and risks is appreciable.

Social Risk Rating Moderate

The activities under component 1 involve minor civil works with no land acquisition. There will be positive social impacts for all households. The project includes specific strategies like subsidies and targeting mechanisms to ensure that poor and vulnerable households adequately benefit from the project. Component 2 is studies and TA and has minimal adverse social impacts. Hence the project is deemed to have low social risk. However, awareness raising and behaviour change is seen as central to the project PDO, hence the risk rating is currently put at Moderate to highlight the importance of implementing an effective stakeholder consultation and campaign through the project.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

This standard is relevant. Component 1 of the Project will support civil works, including typical building-level energy efficiency measures, e.g., insulation of walls and roof ceiling, replacement of windows and exterior doors, the

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replacement of coal- and biomass-fired boilers with cleaner, more efficient heating technologies, and the installation of solar collectors for sanitary hot water and rooftop solar photovoltaics (PV). Therefore, some environmental adverse impacts and risks may occur in Component 1, within civil works on rehabilitation and reconstruction, but the project will not include works outside the already existing parameters. If the potential risks and adverse impacts are identified timely and all mitigation measures are applied adequately these should be small in magnitude and temporary. Impacts from these activities should be typical for construction works, e.g., noise emission, dust emission, wastewater, construction waste, risks to workers (OHS issues), and as such, predictable and easily manageable. Given that the activities including residential buildings in which investments will take place are not determined with certainty yet, the operation will adopt the framework approach. Therefore, an Environmental and Social Management Framework ESMF will be prepared and implemented in order to identify these adverse impacts and risks and manage them properly, specify legislative and regulatory framework, procedures and institutional responsibilities and provide an outline for site-specific Environmental and Social Assessments(ESA) to be developed for each specific site. It will also include a clearly defined procedures for screening, preparation, review, and consultation and addressed responsibility roles. The ESA will be prepared,approved, disclosed prior to the commencement of any civil works and will be part of biding documents.

Given that majority of the risks are related to the OHS, the importance of OHS measures and proper implementation/ supervision will be clearly addressed in the ESMF and subsequent ESMPs/ESMP checklists. Moreover, OHS procedures in the country are clearly defined and Contractor is required to hire OHS coordinator for the design phase and OHS coordinator for the implementation phase (one or more, depending on type of sub-project and number of assigned Contractors).
Given that most of the investments will be focused on the single-family houses, the ESMF will include a pre-approved template for ESMPs which will facilitate their preparation. This is taken into account given that all the anticipated works on single-family houses will be similar in magnitude and nature, within already existing footprint, so only first ten ESMPs will require prior review and Bank approval. This goes only for single-family houses. For interventions on buildings, whether they are less or above five floors, every ESA will be subject to prior approval.

The ESMF will also set forth a screening mechanism to ensure that substantial or high-risk activities are not financed under the Project. Given that the Project will be country wide implemented, the ESMF will need to include very clear and concrete eligibility criteria, screening environmental and social procedures, and based on the screenings' findings it will be further desided what instrument should be used for relevant sub-project activity, and monitoring provisions. The ESMF will also include provisions for the avoidance of any sensitive environments or protected areas, guidance for pollution prevention and environmentally sound resource use under ESS3, and any guidance on cultural heritage or chance finds as stipulated under ESS8.

Furthermore, a Grant Operation Manual (GOM) will be prepared in order to include, among others, an explicit list of activities ineligible for grant financing, tool for environmental screening and guidance on preparation of activity-specific ESA and subsequent ESA monitoring and reporting.
Lastly, taking into account the health and safety issues related to COVID-19, the ESMF (and LMP) will include a section specifying the necessary actions to address these risks at the project level, in line with the national guidelines and the WB Note on "COVID-19.

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Areas where "Use of Borrower Framework" is being considered:

The use of Borrower Framework is not being considered.

ESS10 Stakeholder Engagement and Information Disclosure

Awareness raising, behaviour change and targeting of poor, remote, and vulnerable households is central to the project PDO. A SEP will be prepared for the project which will identify all stakeholders, including specific vulnerable groups. Project design includes emphasis on putting in place mechanisms like subsidies at municipal level, targeting vulnerable households and policy amendments to cater to issues like access to finance and awareness raising of the marginalised population. The SEP will include both outreach to stakeholders as well as awareness raising. The project risk rating has been raised from low to moderate to adequately reflect the importance of delivering on the stakeholder engagement aspect of the program. The SEP will include a Grievance Mechanism.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

There are small civil work activities in component 1 such as installation of solar panels, better insulation etc. There will be no labor influx. There will be a LMP prepared to cover direct workers, consultants and contractors in connection with PIU management, technical studies and small works for component 1.The project will institute a Code of Conduct for project workers and dedicated grievance mechanism to receive confidential complaints. The project workers will receive a training of the prevention of SEA/SH. There will be no bulk purchase of solar panels under the project by the PIU or other entities. Hence no supply chain assessment is called for, as any solar panels purchased will be by individual owners from the local market.

ESS3 Resource Efficiency and Pollution Prevention and Management

This Standard is relevant, as it is expected that a certain amount of waste will be generated as a result of the reconstruction and rehabilitation work under Component 1. If it is estimated that hazardous waste could occur during these works, this needs to be addressed in a manner prescribed for the management of this type of waste.For the majority of the works, the scale of waste is expected to be small, so provisions of proper waste management will be included into the relevant ESMP/ESMP checklist. with information on estimated volumes of various types of waste (waste management, wastewater, communal, hazardous waste), arrangements for their temporary storage, transport and final disposal, and clearances/permits for waste disposal obtained from relevant national authorities and adequate mitigation and rehabilitation practices, as appropriate. Guidance for re-use or recycling of some types of waste and hand-over to secondary users will be included where feasible. Furthermore, the ESMF will provide clear guidance for site-specific instruments on management and disposal of hazardous materials, and it will assess the

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Serbian regulations and facilities in terms of their adequacy to manage these waste streams in accordance with national/EU requirements.

ESS4 Community Health and Safety

The Standard is relevant to the project, as possible adverse impacts on the health and safety of the surrounding communities and staff may occur during works; these risks are identified as generation of waste, noise, dust, unauthorized entrance to sites, traffic management and traffic safety. Traffic/Road Safety Management Plans with measures to ensure the safety during construction and for the operation phase will be prepared together with the Emergency Response Plans with procedures to respond to accidental spills, emissions, fires and other crisis events. General guidelines for traffic management plans will be included in the ESMF. Additional guidelines will be given for such sites like those located in sensitive areas - near schools, hospitals etc. Risks from unauthorized access to working sites will be prevented through a set of measures specified in the ESMPs such as allowing access only to authorized persons with informational and warning signs and fences.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

All small civil works associated with component 1 will be carried out within the foot print of existing residences and buildings. There will be no Land acquisition nor restriction of access to services nor any livelihood impacts stemming from land acquisition.

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ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The standard is not relevant at the concept stage. The project will not entail any physical investments nor civil works which could cause adverse impacts on biodiversity, living natural resources and sensitive areas, as it includes works in the already existing buildings/houses footprint within urban and peri-urban areas. However, some areas that are inhabited by humans can also contain biodiversity that is of significant value in particular in peri-urban areas. Any relevant risks identified in later stage will be addressed and provisions will be made in the ESMF to secure full compliance with applicable regulations, including provisions on excluding investments/works that may be located in such environments or that may have impacts on such areas. The applicability of this standard will be reviewed prior to project Appraisal.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

There are no indigenous people in Serbia.

ESS8 Cultural Heritage

Although the expected civil works will be conducted within already existing buildings footprint, Chance Find's procedures will be included in the ESMF and should be in line with national legal requirements and good

international practice. The ESMF will also include general requirements for contractors in regard with protection of any cultural heritage objects during the implementation of respective contracts. Furthermore, site specific ESA will consider the potential impacts in more detailed manner. If any cultural heritage object is to be identified during the preparation of site-specific ESA, the Cultural Heritage plans may be required as part of ESMPs.

ESS9 Financial Intermediaries

The standard is not relevant. The project will not involve any financial intermediaries.

B.3 Other Relevant Project Risks

N/A

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways	No
OP 7.60 Projects in Disputed Areas	No

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III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

There are no financing partners identified at this stage.

B. Proposed Measures, Actions and Timing (Borrower's commitments)

Actions to be completed prior to Bank Board Approval:

- Preparing, disclosing and conducting consultation on the ESMF before appraisal;
- Preparing labor management procedures(LMP) for the project before appraisal;
- Preparing, disclosing and conduction consultation on SEP before appraisal.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

- Environmental and Social Management Plans or Environmental and Social Management Plans-Checklists for all relevant sub-project investments to be developed and integrated into bidding documents as per the ESMF requirements.
- Implementing ESMF/ESMP and ESMP-Checklists

- ESS capacity building plan for the MME and municipalities, in particular for environmental and social management.
- Hiring of environmental and social specialists prior to start of works.
- Reporting to the Bank on the environmental and social performance of the project as part of the established progress reporting procedure
- Implementing the LMP including GM for workers
- Implementing SEP including project-level GM

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS 16-May-2022

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ministry of Finance

Implementing Agency(ies)

Implementing Agency: Ministry of Mining and Energy

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

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Practice Manager (ENR/Social)	Varalakshmi Vemuru Recommended on 19-Oct-2021 at 04:20:45 GMT-04:00

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Safeguards Advisor ESSA	James Peter Moore (SAESSA) Cleared on 21-Oct-2021 at 14:29:20 GMT-04:00

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