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Report No: PGD471

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 153.7 MILLION  
(US\$ 160 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SERBIA

FOR THE

SECOND SERBIA GREEN TRANSITION  
PROGRAMMATIC DEVELOPMENT POLICY LOAN

February 6, 2025

Macroeconomics, Trade and Investment Global Practice  
Energy and Extractives Global Practice  
Environment, Natural Resources and Blue Economy Global Practice  
Europe and Central Asia Region

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Republic of Serbia  
**GOVERNMENT FISCAL YEAR**  
*January, 1 – December, 31*

**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective as of December 31, 2024)

Currency Unit: Serbian Dinar

US\$ 1.00 = RSD 112.4386

US\$ 1.00 = EUR 0.9606

**ABBREVIATIONS AND ACRONYMS**

AFD	Agence Française de Développement	IMF	International Monetary Fund
AM	Accountability Mechanism	KfW	Kreditanstalt für Wiederaufbau
CAD	Current Account Deficit	LDP	Letter of Development Policy
CBAM	Carbon Border Adjustment Mechanism	MCP	Medium combustion plants
CCDR	Country Climate and Development Report	MFD-e	Maximizing Finance for Development-enabling
CDW	Construction and Demolition Waste	MoEP	Ministry of Environmental Protection
CEM	Country Economic Memorandum	MoF	Ministry of Finance
COVID-19	Coronavirus disease 2019	MoME	Ministry of Mining and Energy
CPF	Country Partnership Framework	MRV	Monitoring, Reporting, and Verification
CTA	Consolidated Treasury Account	MW	Megawatt
DPF	Development Policy Financing	NAPP	National Air Protection Program
DPL	Development Policy Loan	NBS	National Bank of Serbia
EE	Energy efficiency	PA	Prior Action
EEA	Energy Efficiency Administration	PCE	Private Capital Enabling
EPS	Elektroprivreda Srbije	PCI	Policy Coordination Instrument
ETS	Emissions Trading System	PDO	Program Development Objective
EU	European Union	PEFA	Public Expenditure and Financial Accountability
FDI	Foreign Direct Investment	PFM	Public Finance Management
FiTs	Feed-in-Tariffs	PforR	Program for Results
GBT	Greeb Budget Tagging	PSEGR	Public Sector Efficiency and Green Recovery
GDP	Gross Domestic Product	RE	Renewable energy
GHG	Greenhouse gases	RI	Results Indicator
GRS	Grievance Redress Service	SBA	Stand-By Arrangement
IBRD	International Bank for Reconstruction and Development	SOE	State-owned enterprise
ICR	Implementation Completion and Results report	VAT	Value-added tax
IED	Industrial Emissions Directive	WBG	World Bank Group
IFC	International Finance Corporation		

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REPUBLIC OF SERBIA

Second Serbia Green Transition Programmatic Development Policy Loan (P178115)

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

Operation ID	Programmatic	If programmatic, position in series
P178115	Yes	2nd in a series of 2

**Proposed Development Objective(s)**

The objective of the proposed programmatic Green Transition Development Policy Loan is to support Serbia’s efforts to align fiscal management with climate change goals; accelerate the clean energy transition; and strengthen the legal framework for GHG mitigation and pollution management.

**Organizations**

Borrower:	Ministry of Finance		
Contact	Title	Telephone No.	Email
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Implementing Agency:	Ministry of Environmental Protection		
Contact	Title	Telephone No.	Email
Sandra Dokic	State Secretary	381-11-3110271	sandra.dokic@eko.gov.rs

**PROJECT FINANCING DATA (US\$, Millions)**

**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

**SUMMARY**

<b>Total Financing</b>	<b>160.00</b>
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**DETAILS**



**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)

160.00

**PRACTICE AREA(S)**

**Practice Area (Lead)**

Macroeconomics, Trade and Investment

**Contributing Practice Areas**

Energy & Extractives; Environment, Natural Resources & the Blue Economy

**CLIMATE**

**Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

**OVERALL RISK RATING**

Overall Risk

● Moderate

**RESULTS**

Baseline	Closing Period
<b>Pillar I - Program Development Objective A: Align fiscal management with the climate-change goals</b>	
<b>Results Indicator #1 (a): In-year reports on central government’s budget execution published. (Yes/No)</b>	
Dec/2022	Dec/2025
No	Yes
<b>Results Indicator #1 (b): Number of budgetary beneficiaries which include budget program indicators on gender expenditures (Number)</b>	
Dec/2022	Dec/2025
45	60
<b>Results Indicator #2: The borrower started publishing the assessments of fiscal risks related to natural disasters in the Fiscal Strategy. (Yes/No)</b>	
Nov/2022	Nov/2025
No	Yes
<b>Results Indicator #3: Share of environment and climate change related projects in total capital budget. (Percentage)</b>	
Nov/2021	Dec/2025
n.a.	15
<b>Pillar II – Program Development Objective B: Accelerate the clean energy transition</b>	
<b>Renewable energy capacity enabled with policy support (Megawatt) <sup>CRI</sup></b>	



Dec/2021	Dec/2025
0	750
<b>➤ Result indicator #4 (b): MW of cumulative renewable energy capacity procured through auctions (Megawatt)</b>	
Dec/2021	Dec/2025
0	750
<b>Result Indicator # 5: Financing mobilized per year for investment in residential energy efficiency by the programs of the MoME (Amount(USD))</b>	
Dec/2020	Dec/2025
0	38,000,000
<b>Result Indicator # 6 (a): The distribution system operator is fully unbundled from generation and supply activities (Yes/No)</b>	
Dec/2021	Dec/2025
No	Yes
<b>Result Indicator # 6 (b): Percent of power plant output with approved carbon emissions monitoring system (Percentage)</b>	
Nov/2021	Dec/2025
0	95
<b>Result Indicator #7 (a): Share of households receiving rebates to their energy bills under the protection program for Energy Vulnerable (Percentage)</b>	
Dec/2021	Dec/2025
2.70	6.40
<b>Result Indicator #7 (b): Percent increase in the average electricity price for customers entitled to a guaranteed supply at regulated prices (households and small-scale customers) (Percentage)</b>	
Dec/2021	Dec/2025
3.40	15
<b>Pillar III – Program Development Objective C: Strengthen the legal framework for GHG mitigation and pollution management</b>	
<b>Result Indicator #8 (a): Percentage of GHG permits issued relative to the number of submitted applications from operators; (Percentage)</b>	
Nov/2020	Dec/2025
0	40
<b>Result Indicator #8 (b): Establishment of GHG permitting IT tool. (Yes/No)</b>	
Nov/2020	Dec/2025
No	Yes
<b>Result Indicator #8 (c): Number of capacity building trainings for operators of stationary installations and for competent authorities. (Number)</b>	
Nov/2020	Dec/2025
0	7
<b>Result Indicator #9 (a): Accessibility of the population to sanitary landfills in the Republic of Serbia. (Percentage)</b>	
Nov/2021	Dec/2025
42	55
<b>Result Indicator #9 (b): Number of unsanitary landfills under remediation. (Number)</b>	
Nov/2021	Dec/2025
0	4
<b>Result Indicator #9 (c): Multiple management/disposal options for sewage sludge created in Serbian strategic and legal framework. (Yes/No)</b>	
Nov/2021	Dec/2025
No	Yes
<b>Result Indicator #10 (a): Share of medium combustion plants with a thermal power from 1 to 50 MW out of the total number of MCPs registered in the National Register of Pollution Sources database. (Percentage)</b>	
Nov/2020	Dec/2025
0	35
<b>Result Indicator #10 (b): Number of integrated permits issued. (Number)</b>	
Nov/2020	Dec/2025
36	55



**The World Bank**

Second Serbia Green Transition Programmatic Development Policy Loan (P178115)

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**IBRD PROGRAM DOCUMENT FOR A PROPOSED  
SECOND SERBIA GREEN TRANSITION PROGRAMMATIC DEVELOPMENT POLICY LOAN  
TO THE REPUBLIC OF SERBIA**

**I. COUNTRY CONTEXT AND OPERATION SUMMARY**

**1. The proposed Second Serbia Green Transition Programmatic Development Policy Loan (DPL) supports efforts to align fiscal management with climate change goals; accelerate the clean energy transition, and strengthen the legal framework for greenhouse gases (GHG) mitigation and pollution management.** The proposed loan of US\$ 160 million equivalent is the second in a programmatic series comprising two DPLs, with the first DPL approved in March 2023.<sup>1</sup> The program is informed by the findings of the 2022 World Bank report on Supporting Serbia’s Transition to Greener and More Resilient Growth and the 2024 Country Climate and Development Report (CCDR).<sup>2</sup>

**2. The proposed DPL aims to help Serbia achieve faster and more resilient growth.** While the rate of GDP growth in Serbia rebounded immediately after the pandemic (standing at 7.9 percent in 2021), it then averaged 3.2 percent in 2022-23. Serbia’s economy is also characterized by high energy and carbon intensity and inefficient use of resources and remains vulnerable to climate-related and other exogenous shocks. The European energy crisis in 2022, combined with domestic issues that hampered generating capacity and with a need to import electricity, coal, and gas at exceptionally high prices – resulted in considerable fiscal costs. Moreover, climate-change induced droughts in 2022 and 2024 significantly reduced domestic agricultural output, leading to a sharp increase in food prices for two years in a row at a time when international food prices have been also rising sharply.

**3. Relatively robust growth rates since the pandemic have not fully translated into better living standards.** Despite declining trends in the incidence of poverty, the share of the population at risk of poverty remains around 20 percent.<sup>3</sup> Income inequality, as measured by the Gini coefficient, declined from 38.3 to 31.7 between 2013 and 2023, but is still high compared with aspirational peers in the European Union (EU). Serbia’s reliance on domestic lignite (which accounts for about two-thirds of the energy mix in power generation) also negatively affects public health. With 175 deaths per 100,000 people in 2019, Serbia had the highest incidence of death rates from air pollution in Europe and was ranked 9th globally.<sup>4</sup> Climate change exacerbates air quality issues in Serbia by intensifying heatwaves and the stagnation of air masses, which increase the concentration of particulate matter.

**4. The government is committed to greening the economy and making the energy sector less carbon-intensive, as a part of the journey towards EU membership.** Serbia’s ambition to join the EU will require compliance with the *acquis communautaire*. Serbia opened chapter 27 (environment and climate change) for negotiations with the EU in 2021 and is also a signatory of the Sofia Declaration on the Green Agenda for the Western Balkans (2020). The latter is aligned with

<sup>1</sup> The program supported by the DPL1 was fully implemented. Reforms ranging from improved fiscal management (related to fiscal risks, budget transparency and public investment management); modernization of the energy sector (enabled implementation of auctions for renewable energy capacity; strengthen the Energy Efficiency Administration; unbundled the power company and expanded the benefits coverage for energy-vulnerable customers) and aligned with European Union standards on environment and climate action (related to monitoring of GHG emissions, waste management and air quality). The DPL1 was closed on June 30, 2024.

<sup>2</sup> World Bank “Supporting Serbia’s Transition to Greener and More Resilient Growth: Policy and Institutional Reforms”, November 2022, and World Bank “Country Climate and Development Report” (CCDR), September 2024.

<sup>3</sup> Survey of Income and Living Conditions, Statistics Office, 2024.

<sup>4</sup> Global Alliance on Health and Pollution, “Global, Regional, and Country Analysis”, December 2019.



the objectives of the EU Green Deal and provides the basis for Serbia to reach ‘net zero’ by 2050. The launch of the EU’s New Growth Plan for the Western Balkans (in 2024) has added impetus to EU enlargement. The recent World Bank CCDR, recognizes that the adoption of a comprehensive set of climate- and environment-related laws in early 2021 marked a pivotal step toward transitioning to a lower-carbon development trajectory and enabled Serbia to start the process of transposing the full EU “Clean Energy for All Europeans” package. Finally, the energy crisis has highlighted the need to build resilience and diversify energy supply. Through immediate support programs, the government is preserving the financial sustainability of energy utilities while protecting the affordability of electricity and heating services for households. In the medium term, the strategy includes expanding renewable energy (RE) capacity, piloting new technologies for clean energy such as hydrogen, and enhancing energy efficiency (EE).

**5. This DPL series, and the reforms that it supports, are closely aligned with the World Bank’s Country Partnership Framework (CPF).** The DPL series was envisaged in the FY22-26 CPF. The program supported by this series will contribute to sustainable growth and an economy that is more resilient to future shocks. It is important to underline at the outset that some of the prior actions supported by this DPL were completed earlier on, while in other cases, reform measures were adopted more recently. This is due to a hiatus of seven months between the formation of a caretaker government on November 1, 2023, the general elections of December 2023 and the appointment of a new (continuity) government in May 2024. The reform commitment and momentum, however, have been maintained throughout this period through constant engagement between the World Bank team and Serbian authorities.

**6. The proposed DPL series is financed in parallel with other development partners and provides a shared platform for policy dialogue in Serbia.** The program of reforms supported by this DPL series has provided a policy platform around which several development partners have coalesced. The French Development Agency (*Agence Française de Développement, AFD*) and German Development Bank (*Kreditanstalt für Wiederaufbau, KfW*) are financing the same policy matrix with two parallel loans worth up to EUR 135 million each, as was the case for the first DPL in the series. At the same time, substantial coordination has taken place notably on the energy front with the European Bank for Reconstruction and Development and the International Monetary Fund (IMF).

**7. The overall risk related to this operation is assessed as moderate.** None of the risk categories was assessed as substantial. The new government was sworn in by Parliament in May 2024, leaving a relatively limited timeframe to proceed with the reforms supported by this series. However, the World Bank had continued to pursue the technical work needed for preparation of these DPL supported reforms supported by this series with the interim government. Also, the macroeconomic risks are assessed as moderate, as the risks associated to a (slower) global economic recovery and high commodity prices might have an impact on foreign direct investment (FDI), exports and terms of trade thus impacting the Serbian economy. As part of the response to macroeconomic challenges and risks, Serbia requested and got approved a new IMF program – a Policy Coordination Instrument (PCI) – that started immediately after the previous Stand-By Arrangement (SBA) ended in December 2024.

## II. MACROECONOMIC POLICY FRAMEWORK

**8. Serbia’s macroeconomic policy framework is assessed as adequate for this operation.** Serbia has implemented a prudent macroeconomic policy mix over the past decade, resulting in a continuous decline in public sector debt as a share of GDP. At the same time, close coordination between fiscal and monetary policy has helped to set inflation on a declining trend, while keeping external balances in check. The COVID-19 crisis, and subsequent shocks in the energy sector, triggered an appropriate policy response from the government which nevertheless worsened fiscal balances but within



an underlying adequate macroeconomic framework. The recently approved (December 2024) new IMF 36-month PCI will focus on balancing Serbia's public investment and social expenditure needs with an anchor of continued fiscal discipline, in order to support sustainable growth while keeping public debt on a downward path.<sup>5</sup>

### A. Recent Economic Developments

**9. After a pickup in 2023, growth has remained strong in 2024.**<sup>6</sup> The Serbian economy experienced strong real GDP growth of 3.8 percent in 2023, rising to 4.3 percent year-on-year (y/y) in the first half of 2024. Growth was driven by a better-than-expected performance of construction and services in the first half of the year. During the same period, on the expenditure side, consumption and investment were the main drivers of growth, while the contribution of net exports was negative. Consumption started to recover in 2024 after a poor performance in 2023, thanks to rising incomes and a steady decline in inflation. As a result, the full-year projection for 2024 growth has been increased to 3.9 percent. The labor market also saw improvements: unemployment rate averaged 8.8 percent in the first half of the year, while the employment rate reached 51.1 percent. Wages increased by 14.7 percent in nominal terms (9.2 percent, in real terms) in the first half of 2024 compared with the same period in 2023.

**10. After reaching historical lows in 2023, the current account deficit (CAD) expanded in 2024.** The CAD reached 2.4 percent of GDP in 2023, a sharp reduction compared to 6.6 percent of GDP in 2022. However, during the first eight months of 2024 the CAD already more than tripled compared to the same period of 2023. The trade deficit was also higher by 20 percent compared to the same period of 2023, while the primary income deficit increased by 11 percent, y/y (in euro terms). At the same time, net transfers declined marginally, although still reporting a major surplus. The trade deficit widened because of a much stronger growth of imports – 5.1 percent compared to growth of exports of 1.5 percent y/y through August 2024. Net FDI has continued to perform strongly, reaching EUR 2.9 billion through August 2024, thus fully financing the CAD. Foreign currency reserves increased to a record high level of EUR 28.3 billion by September 2024.

**11. Inflation has continued to decline in the first half of 2024, mainly due to a significant drop in food-related inflation.** Inflation fell from 7.6 to 3.8 percent between December 2023 and June 2024. However, it edged up in July, due to an increase in food prices, due to the extreme drought that hit Serbia in the summer of 2024. Inflation stood at 4.5 percent in October. The National Bank of Serbia (NBS) kept the key policy rate unchanged at 6.5 percent from July 2023 through June 2024, when it was lowered for the first time. Currently the key policy rate is 5.75 percent. The nominal exchange rate remains stable, but the real effective exchange rate appreciated by 1.5 percent through September 2024.

**12. The performance of the banking sector remains robust.** Based on 2024 Q2 data, banks have remained profitable and liquid. The return on equity rose to 22.7 at the end of June compared to 18.1 at the end of 2023. The liquidity ratio increased from 2.5 at the end of 2023 to 2.6 in Q2, while the capital adequacy ratio increased to 21.8 percent at the end of June (compared to 21.4 percent at the end of 2023). Non-performing loans (NPLs) stood at 2.9 percent in June, a new record low. Overall, the stock of loans outstanding decreased by 1.2 percent (y/y) through June 2024. However, loans to private businesses and households were up by 7.3 percent and 4.8 percent, respectively, in June 2024 (y/y).

**13. The consolidated budget shifted to a small surplus of 0.3 percent of GDP over the first nine months of 2024.** From 2021 to 2023 there has been a gradual reduction in the fiscal deficit as COVID-19 related stimulus programs ended. This trend continued in 2024. Budgetary revenues overperformed significantly through September 2024 (up 14.4 percent

<sup>5</sup> End of mission press release: <https://www.imf.org/en/News/Articles/2024/10/15/pr-24371-serbia-imf-agreement-4th-rev-arrangement-36mo-policy-coordination-instrument>

<sup>6</sup> In October 2024 the Statistics Office published a revised set of national accounts, including the nominal GDP covering the period 1995-2023. This led to changes in indicators where GDP is used as a denominator.



in nominal terms, y/y), primarily thanks to a higher-than-planned collection of social insurance contributions, value-added tax (VAT), and personal income tax. Over the same period, expenditures increased by 13.9 percent in nominal terms. As a result, the consolidated fiscal surplus was higher than in the same period of 2023, reaching 0.3 percent of annual GDP. However, according to the supplementary budget approved in September 2024, this year's fiscal deficit is expected to reach 2.7 percent of GDP, compared with 2 percent in 2023.

**Table 1. Selected Economic and Financial Indicators**

	2021	2022	2023e	2024p	2025p	2026p	2027p
	Annual percentage change, unless otherwise indicated						
<b>National Accounts</b>							
GDP at constant prices (%)	7.9	2.6	3.8	3.9	4.2	4.2	4.5
Consumption	6.9	3.0	-7.1	7.8	4.0	4.3	4.2
Investment	9.2	3.8	4.5	11.3	6.3	5.4	4.7
Exports of goods and services	20.4	17.0	2.7	7.0	6.6	5.7	6.5
Imports of goods and services	17.7	16.2	-1.6	5.1	7.1	6.2	6.1
<i>Sectoral contribution to growth</i>							
Agriculture (ppts)	-0.2	-0.5	0.4	-0.3	0.2	0.1	0.2
Industry (ppts)	2.5	0.4	1.1	0.7	0.5	0.5	0.8
Services (ppts)	5.6	2.6	3.4	3.6	3.5	3.6	3.5
<b>Inflation</b>							
GDP deflator	5.7	10.5	13.8	5.0	3.3	3.1	3.2
Consumer prices (average)	4.0	11.9	12.4	5.3	3.5	3.2	4.2
<b>Selected Monetary Accounts</b>							
Banks' credit to the government	3.8	-4.8	6.7	..	..	..	..
Banks' credit to private sector	9.7	7.1	0.9	..	..	..	..
Broad money (M2)	13.8	6.1	21.8	..	..	..	..
<b>External sector</b>							
Exports fob	30.7	28.1	3.7	10.2	10.1	8.8	7.6
Imports fob	27.1	34.2	-4.8	12.0	10.0	8.7	8.6
Terms of trade	2.5	-3.8	..	..	..	..	..
	Percent of GDP, unless otherwise indicated						
Current account balance (incl. grants)	-4.1	-6.6	-2.4	-4.4	-5.1	-5.2	-5.4
Foreign Direct Investment	6.5	6.8	5.6	5.4	5.1	4.8	4.7
<b>Debt</b>							
Public debt (external and domestic)	54.5	52.9	48.4	47.9	47.7	46.8	46.3
External public debt	33.1	34.0	33.7	35.0	34.5	33.5	34.5
Debt services	6.5	6.0	7.5	9.2	6.7	9.1	8.0
<b>Fiscal Accounts</b>							
Total revenue and grants	41.2	41.3	39.4	40.9	41.1	40.8	40.8
Total expenditure and net lending	45.2	44.1	41.4	43.6	44.1	43.9	43.8
Overall fiscal balance (with grants)	-3.9	-2.9	-2.0	-2.7	-3.0	-3.0	-3.0
<b>Memorandum items</b>							
GDP per capita (%)	9.0	5.2	4.5	4.6	4.9	4.9	5.2
Gross reserves (US\$ millions, EOP)	18,636	20,709	27,525	..	..	..	..
In months of next year's imports)	6.1	5.2	7.1	..	..	..	..
Nominal GDP (RSD billion)	6,576	7,459	8,818	9,616	10,351	11,120	11,992

Source: Staff estimates based on the NBS, MFIN, IMF, Statistics Office data.



**Table 2. Key Fiscal Indicators (Percent of GDP)**

	2021	2022e	2023p	2024p	2025p	2026p	2027p
<b>Total revenue and grants</b>	<b>41.2</b>	<b>41.3</b>	<b>39.4</b>	<b>40.9</b>	<b>41.1</b>	<b>40.8</b>	<b>40.8</b>
<i>Revenue</i>	41.0	41.0	38.9	40.5	40.8	40.5	40.5
Tax revenue	36.8	37.0	34.9	36.3	36.4	36.5	36.7
Direct taxes	19.4	19.6	19.1	19.9	20.1	20.2	20.3
Indirect taxes	16.0	16.0	14.6	15.2	15.1	15.2	15.2
Taxes on goods and services	10.0	10.5	9.6	9.9	10.1	10.2	10.2
Taxes on international trade	0.9	1.1	0.9	0.9	0.9	0.9	0.9
Other taxes	1.4	1.3	1.2	1.2	1.2	1.1	1.1
Non-tax revenue	4.0	3.8	3.9	4.1	4.3	3.9	3.7
<i>Grants</i>	0.3	0.2	0.5	0.4	0.4	0.4	0.3
<b>Total expenditures</b>	<b>45.2</b>	<b>44.1</b>	<b>41.4</b>	<b>43.6</b>	<b>44.1</b>	<b>43.9</b>	<b>43.8</b>
<i>Current expenditures</i>	37.2	34.3	33.9	35.7	36.3	36.1	36.1
Wages and salaries	9.6	9.2	8.8	9.5	9.7	9.7	9.8
Goods and services	9.9	9.1	8.5	8.8	8.7	8.7	8.7
Subsidies and transfers	3.1	2.2	2.4	2.5	2.6	2.4	2.4
Social benefits	12.9	12.5	12.5	13.0	13.3	13.4	13.2
Interest on debt	1.7	1.4	1.7	1.9	2.1	2.1	2.0
<i>Capital expenditure</i>	7.1	6.8	6.4	7.3	7.3	7.3	7.4
<b>Overall fiscal balance (incl. grants)</b>	<b>-3.9</b>	<b>-2.9</b>	<b>-2.0</b>	<b>-2.7</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-3.0</b>
Primary balance	-2.3	-1.4	-0.4	-0.8	-0.9	-0.9	-1.0
<b>Financing</b>							
Domestic (Net)	0.6	0.1	-1.0	0.0	1.3	2.4	2.6
External (Net)	4.9	4.1	5.0	2.4	1.7	0.9	1.0

Source: Ministry of Finance, IMF.

**14. Public and publicly guaranteed debt remained broadly stable throughout 2024 and stood at around 50 percent of GDP by end-September.** The public debt increased in euro terms by 5.5 percent since end-2023 which meant an increase from 48.4 to 50.4 percent of GDP between December 2023 and September 2024. Most of the new borrowing relates to external financing of the deficit including through new issuance of Eurobonds. Total external debt increased by 5.9 percent in euro terms through June 2024 (since end-2023), reaching EUR 48.1 billion (or 61.2 percent of GDP).

## B. Macroeconomic Outlook and Debt Sustainability

**15. The Serbian economy is expected to grow by around 4 percent per year over the medium term, driven primarily by consumption and public investment.** Considering the large investments planned for Serbia’s Expo 2027, the contribution of investment to growth will increase significantly in the medium-term. Consumption will also contribute to a strong growth over the medium-term on the back of the rising real wages and high employment levels. There are both upside and downside risks to this outlook. The latter relate to the impact of climate change related shocks on agriculture, the food industry, and infrastructure. The former include a potentially greater impact of export on growth, on the back of, but not limited to, recent private sector investments in the automotive and IT sectors. At the same time, European and global economic outlook face different challenges that might impact Serbia’s outlook as well.



**16. The CAD is projected to stand at around 5 percent of GDP over the medium term.** The increase in the CAD is due to the widening trade deficit, which is set to increase from 8.8 percent of GDP in 2023 to 10.3 percent in 2027). The surplus in services trade will decrease gradually over the projections period, from 4.1 percent of GDP in 2023 to 3.1 percent of GDP in 2027. By and large, the CAD will be financed by non-debt-creating flows, mostly FDI, which is projected to average 4.9 percent of GDP during 2025-27. As a result, the external debt is projected to continue to decline throughout the projection period and reach around 60 percent of GDP by 2026 – compared with an estimated 66.6 percent of GDP at the end of 2022 and a peak level of 76.4 percent of GDP reached in 2012.<sup>7</sup>

**17. With inflation decreasing gradually, the NBS is cautiously loosening its monetary policy stance.** The NBS remains committed to inflation targeting (3 percent +/- 1.5 percent), although inflation returned to the target band only in mid-2024. Despite emerging pressures on prices, mostly related to the recent drought, inflation is expected to gradually decrease to around 3 percent over the medium term. Reserves will remain at comfortable levels, although it is expected that the NBS will continue to intervene on the foreign exchange market to prevent more significant short-term fluctuations in the exchange rate.

**Table 3. External Financing Needs and Sources (millions of US\$)**

	2021	2022	2023e	2024p	2025p	2026p	2027p
<b>Financing Requirements</b>	<b>6,156</b>	<b>7,498</b>	<b>4,680</b>	<b>7,264</b>	<b>8,841</b>	<b>9,581</b>	<b>10,583</b>
Current account deficit	2,667	4,378	1,953	3,955	4,961	5,395	6,078
Long-term debt amortization	3,489	3,120	2,727	3,308	3,880	4,186	4,506
Short-term debt amortization	..	..	..	..	..	..	..
Other capital outflows (incl. deposits)	..	..	..	..	..	..	..
<b>Available Financing</b>	<b>6,156</b>	<b>7,498</b>	<b>4,680</b>	<b>7,264</b>	<b>8,841</b>	<b>9,581</b>	<b>10,583</b>
Foreign Direct Investment (net)	4,304	4,553	4,566	4,805	4,900	5,075	5,253
Portfolio investment (net)	1,831	-13	953	1,162	1,261	1,360	1,464
Capital Grants	329	334	366	376	388	419	451
Short-term debt disbursement	..	..	..	..	..	..	..
Long-term debt disb. (excl. IMF)	3,950	4,008	3,904	4,292	4,753	4,814	5,069
IMF credit (net)	0	1,066	178	0	0	-616	-673
Change in Reserves (- = Increase)	-3,487	-3,115	-5,942	-3,596	-3,292	-3,303	-3,297
Errors & Omissions	-771	666	655	225	831	1,833	2,316

Source: NBS, IMF and World Bank staff estimates and projections.

**18. The financial sector is expected to remain stable and resilient to shocks.** The financial sector will most likely remain dominated by commercial banks over the medium term, as the deepening of capital market will take time to materialize. Further integration of the financial market of Serbia with the EU is expected as the NBS has made concerted efforts to align the domestic legal and regulatory framework with the requirements for integration into the Single Euro Payments Area.

**19. The government remains committed to maintaining the fiscal deficit below 3 percent of GDP over the medium term.** As part of the new IMF program, the government committed to a medium-term fiscal framework which targets a fiscal deficit of less than 3 percent of GDP over the next three calendar years. Revenues are projected to stay around 41 percent of GDP throughout the projection period, while total expenditures will be slightly below 44 percent of GDP. Social

<sup>7</sup> Serbia reached the investment grade rating for the first time ever in October 2024.



security contributions and VAT will be key sources of revenue (in line with assumptions of a strong contribution to growth from consumption and a continued rise in wages), while spending on pensions and the wage bill will be key expenditure items. Capital expenditures will remain elevated at over 7 percent of GDP. Although issued guarantees are relatively small – around 2.2 percent of GDP at the end of September 2024 – contingent liabilities could be significantly higher as the state-owned enterprise (SOE) sector remains large and broadly unreformed.

**Table 4. Public and Publicly Guaranteed Debt Stock and Debt Service**

	Debt Stock (end of period)			Debt Service			
	2024 (Sep)			2025	2026	2025	2026
	in million US\$	Percent of Total	Percent of GDP	in million US\$		(Percent of GDP)	
<b>Total PPG Debt</b>	42,597.0	100.0	47.6	6,170.9	9,224.6	6.4	8.8
<b>Domestic Debt</b>	12,254.4	28.8	13.7	3,136.6	3,347.4	3.2	3.2
Treasury bills	0.0	0.0	0.0	..	..	..	..
Treasury bonds	10,647.8	25.0	11.9	..	..	..	..
Others	1,606.6	3.8	1.8	..	..	..	..
<b>External Debt</b>	30,342.6	71.2	33.9	3,034.3	5,877.2	3.1	5.6
Multilateral creditors	8,854.0	20.8	9.9	..	..	..	..
Bilateral Creditors	7,646.5	18.0	8.6	..	..	..	..
Paris Club	343.1	0.8	0.4	..	..	..	..
Non-Paris Club	7,303.4	17.1	8.2	..	..	..	..
Commercial Creditors	13,842.2	32.5	15.5	..	..	..	..
<b>Memo items</b>				..	..	..	..
SOE guaranteed external debt	1,444.0	3.4	1.6	372.1	337.8	0.4	0.3
External Arrears	n.a.	n.a.	n.a.	..	..	..	..
RSD per US\$: Official (EOP)	104.87	..	..	..	..	..	..

Source: MoF, Public Debt Administration, staff calculations.

Note: Central government only. 2024 data shown as percent of annual GDP.

**20. Although the debt-to-GDP ratio has been broadly stable over the past two years, there are risks.** The share of total public debt is expected to gradually decline over the projection period. However, there are risks to the baseline scenario. First, since over 75 percent of public debt is denominated in foreign currencies, the most significant shock would be a 30 percent one-off depreciation of the Serbian dinar which could lift the public debt to 64.5 percent of GDP. A contingent liabilities shock would also be significant and could increase the share of public debt in GDP to 57 percent. Moreover, gross financing needs will remain substantial throughout the projection period at over 8 percent of GDP.

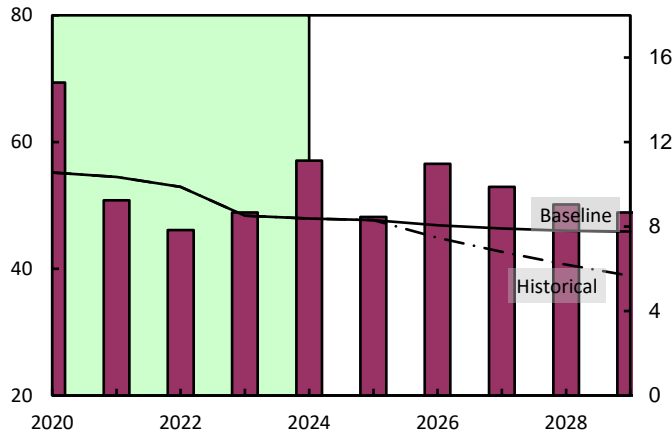
**21. There are moderate risks to the macroeconomic framework, primarily related to the performance of SOEs, the outlook of the global economy, and the impact of natural disasters.** The main risk to the baseline macroeconomic scenario is the performance of key state-owned energy utility companies (namely, the power company Elektroprivreda Srbije – EPS and Srbijagas). The 2022 energy crisis, disruption in electricity production—combined with high prices of raw materials, including gas and coal—have entailed significant fiscal cost for the state’s budget. And although, this DPL series contributes to mitigate the financial risks associated with EPS’s performance, there are other operational risks associated to this company. The second most important risk is associated with the EU economic outlook and the economic performance of Serbia’s other main trading partners. Some two-thirds of Serbia’s export go to the EU, while about 15



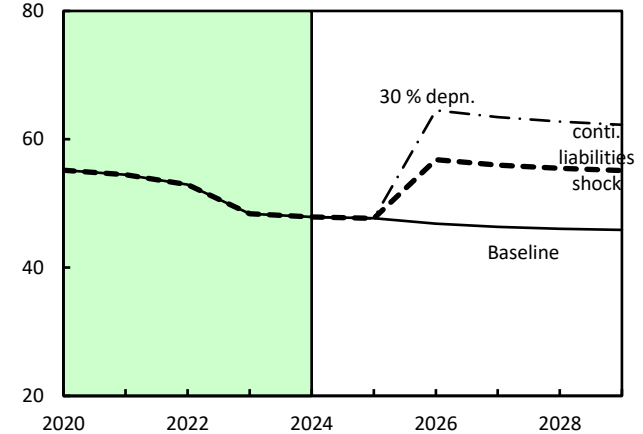
percent are directed towards the Western Balkans, making the country’s economy dependent on the pace of economic growth in these two regions. Finally, an increased frequency of climate related events, particularly droughts and floods, could cause to major losses and damages.

Figure 1. Serbia Public Debt Sustainability: Bound Tests

Public Debt as % of GDP: Baseline and Historical Averages Scenarios (LHS) and Gross Financing Needs (bars, RHS)



Real Depreciation and Contingent Liabilities Shocks to Public Debt Sustainability (see notes)



Sources: World Bank, Ministry of Finance, and IMF.

Notes: Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks.

### C. IMF Relations

22. Serbia successfully completed the IMF Stand-By Arrangement (SBA) in December 2024 and started a new program immediately after that. In October 2024, Serbian authorities and IMF staff reached a staff-level agreement on the fourth and final review under the SBA and on a successor 36-month Policy Coordination Instrument (PCI) request. Serbia’s program performance under the SBA was strong. All relevant quantitative and standard continuous performance criteria were met, as were most indicative targets and structural benchmarks. The new PCI is a non-financing instrument designed to support strong economic policies through December 2027. The agreement was approved by the IMF Executive Board in December 2024.

## III. PROPOSED OPERATION

### A. Link to Government Program, CPF, other WBG operations, and Corporate Priorities

23. Government Program and Priorities. The Government of Serbia’s policy and legislative agenda shows increasing awareness of the necessity to pursue a more environmentally and climate-friendly agenda, which is at the same time growth enhancing. Some key elements of the government’s program are embedded in the 2024 Reform Agenda that underpin the Growth Plan for the Western Balkans.<sup>8</sup> The Reform Agenda articulates 98 reforms across four broad buckets: 1) business environment and private sector development; 2) green and digital transitions; 3) human capital; and 4) rule of

<sup>8</sup> It was approved by the government on October 3, 2024.



law. In addition, in November 2024, the government approved the new Fiscal Strategy 2025-2027, which establishes a clear link between envisaged reforms and the budget.

**24. Alignment of Program Development Objective (PDO) with the government's priorities.** The proposed DPL supports the aspirations of the Serbian government on the energy and climate fronts, as defined in the government's Reform Agenda. Prior Action (PA)#3, on renewables, supports reforms envisaged under Area #2 (Green and Digital Transitions), reform item 7.1.4 (introduction of transparent and competitive producers for renewables); PA#5, on EE, supports reforms envisaged under reform item 7.1.7 (implementation of the EU Directive on EE); PA#6 and PA#7 support implementation of activities envisaged under reform item 7.1.6. (implementation of the EU legislative package on Monitoring, Reporting, and Verification (MRV)). Prior actions under Pillar 1 on green budget tagging (GBT) and fiscal risks support the government's effort to improve public financial management (PFM) as envisaged in the Program for Reform of Public Financial Management.<sup>9</sup>

**25. Link to CPF, WBG Strategy, and Corporate Priorities.** The proposed DPL is conducive to achieving the overarching goal of the Serbia Country Partnership Framework (FY22-26) on fostering growth that is sustainable across generations and is coordinated with other World Bank engagements. The DPL series directly supports CPF Higher Level Outcome – 1: Growth that is greener and more resilient, and specifically objectives 1.1 (Stronger macro-fiscal framework and structural reforms for greener growth) and 1.2 (Greener investments and just transition to a low-carbon and resilient economy).

**26. The operation is aligned with the Maximizing Finance for Development-enabling (MFD-e) approach, and private investment generated through the operation is counted towards Private Capital Enabling (PCE).** The following PAs are verified as MFD-e: PA#3 supports the adoption of new secondary legislation to enable the second round of renewable energy auctions and is expected to generate a significant increase in privately financed renewable energy generation; PA#4 supports regulations to promote energy efficiency improvements, including through commercial financing. PA#5 supports the transformation of the energy SOE EPS from a public enterprise into a closed joint-stock company. As part of the commercialization of EPS, there is an expectation that the company would finance investments through commercial borrowing. Therefore, the operation has been tagged as MFD-e. PA#3 is also verified as PCE in that it establishes a direct line of sight between the enactment of the new legislation and additional privately financed renewable energy capacity through the planned auctions. The operation has been thus tagged as PCE.

**27. Paris Alignment.** This operation is aligned with the goals of the Paris Agreement. First, the DPL reform program is consistent with the country's climate commitments. Second, on the mitigation front, none of the PAs are likely to cause a significant increase in GHG emissions or any persistent barriers to the transition to low-GHG emissions pathways. All PAs of the proposed DPL program are thus aligned with the mitigation goals of the Paris Agreement. Third, on adaptation and resilience, no significant climate change impacts to the achievement of the PDO have been identified. Conversely, PAs are likely to reduce climate change vulnerabilities. All PAs of the proposed DPL program are therefore also aligned with the adaptation and resilience goals of the Paris Agreement. A detailed review of the PAs is in Annex 2.

**28. Complementarities and synergies with other operations.** This DPL series is aligned with ongoing World Bank operations including the following: (i) Improving Public Financial Management for the Green Transition Program for Results (PforR) (P175655); and (ii) Serbia Scaling-Up Residential Clean Energy project (P176770). The PforR focuses on implementation of the policy actions instituted through the DPL series, related to reforms supported under Pillar I (GBT,

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<sup>9</sup> Most recently updated in December 2023.



fiscal risk monitoring) and Pillar II (MRV system for GHG emissions). Further synergy exists with the Strengthening Institutional Capacity for Fiscal Risk Monitoring and Management Project, financed by the Swiss Secretariat for Economic Affairs, which provide technical assistance to the Ministry of Finance (MoF) for the purpose of fiscal risk monitoring.

**29. Incorporation of lessons learned.** The Bank completed two Implementation Completion and Results Reports (ICRs) for the most recent DPLs – the Public Sector Efficiency and Green Recovery (PSEGR) DPL (P164575), published in 2023, and the Public Expenditure and Public Utilities DPL Series (P155694 and P161184), published in 2021. The ICRs provided valuable lessons for the design of this DPL series, including: (i) DPL is a strong instrument to support complex reforms, particularly when it builds on solid analytical work and continuous client engagement; (ii) results indicators should be specific, clearly defined, measurable, and easily verifiable, preferably online; (iii) good cooperation with other international partners, and ideally joint policy dialogue and financing, is important for greater impact; (iv) a programmatic approach and complementarity with other Bank operations help ensure a consistent implementation of reforms; and (v) strong government ownership of the reform agenda is fundamental.

#### B. Prior Actions, Triggers, Expected Results and Analytical Underpinnings

**30. The objective of the programmatic series is to support the Government of Serbia’s efforts to: 1) align fiscal management with the climate-change goals, 2) accelerate the clean energy transition, and 3) strengthen the legal framework for GHG mitigation and pollution management.** Reforms supported by the proposed DPL are organized under three pillars aligned with the development objective and directly linked to PAs supported by the first DPL in this series.<sup>10</sup>

#### ***Pillar I: Align fiscal management with the climate-change goals***

##### **Prior Action #1: Green and Gender Budget Tagging**

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*Prior Action #1: The Borrower has increased transparency in budgetary process by: (i) introduction of tagging of “green” budget expenditures in order to make more transparent information on spending on environment and climate-related activities by enacting amendments to the Budget System Law, Article 35, related to budgetary instructions and Article 79 related to the content of the final account, as evidenced by amendments to the Budget System Law, published in the Borrower’s Official Gazette No. 94/2024, dated November 28, 2024, and (ii) adoption of the annual plan for expansion of the coverage of budget beneficiaries with gender responsive budget, as evidenced by the Plan for introduction of the gender responsive budget in 2025, adopted by the Ministry of Finance on March 29, 2024.*

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**31. Rationale:** The current budget formulation does not permit to establish a direct link between planned budgetary expenditures and public policies, including those related to the environment and climate change as well as those beneficial to gender equality. Therefore, the government has sought to prepare budgets aligned with national green priorities and the National Strategy for Gender Equality 2021-2030, thus providing greater transparency and accountability on actions taken to pursue green and gender related goals. While there was some limited progress with the gender responsive budgeting in recent years, until now, the government was unable to identify the impact of budget expenditures on the environment and the broader Green Agenda – including climate change mitigation and adaptation – and communicate

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<sup>10</sup> Only one indicative trigger from the DPL1 policy matrix was not turned into a Prior Action for DPL2 – the IT#3 related to the measurement of climate co-benefits. Although the government remained committed to this reform and some of the background technical work was completed the overall reform could not be completed within the lifespan of the DPL series.



those results to citizens, businesses and other stakeholders. A comprehensive analysis (UN Women, 2023) of Serbia's budgetary allocations for climate change and gender equality further confirms the lack of precise data on the proportion of funds directly supporting gender equality outcomes. This data is essential not only to ensure that the government budgets effectively address the needs of all citizens, promoting equality and inclusion, but address systemic inequalities that perpetuate gender gaps. While significant progress on gender quality has been achieved, Serbia continues to grapple with multiple gender gaps, and one way to address them would be through targeted government programs and spending. As noted in the most recent World Bank Country Gender Assessment for Serbia (2024) gender disparities in economic opportunities persist, with women participating less in the workforce, often in part-time roles, and burdened by caregiving responsibilities. Lastly, the State Audit Institution's 2023 performance audit on gender responsive budgeting revealed that the implementation process (based on data up to 2021) was ineffective and requires substantial improvements.<sup>11</sup> At the same time the 2024 CCDD emphasizes the need to address these issues and of strengthening the PFM system to support the green transition.

**32. Policy Content:** The GBT aims to help achieve environmental and climate goals by evaluating the environmental and climate-change impacts of policies and activities financed by the budget. The recently legislated GBT will contribute to an evidence-based discussion on sustainable growth. The Budget System Law was amended in November 2024 to mandate that the Instructions for Preparation of the Budget include the application of the GBT methodology (starting from 2025, article 35 of the law). In addition, the annual Law on government's final account, i.e., the annual report with the final numbers related to the budget's execution, must include information on green expenditures (article 79). In the meantime, in December 2023 the Methodology for Budget Tagging of Green Projects was adopted and published on the MoF website, followed by an Instruction for Preparation of the 2025 budget issued in July 2024. The methodology provides guidance to budget users for tagging green expenditures with positive impact on the environment and climate in the first year, as well as for tagging expenditures with both positive and negative impacts on the environment in the following years. Building on achievements from PforR (P175655), where three ministries successfully integrated gender and climate key performance indicators into program budgets, Serbia can expand dual classifications to track expenditures addressing both gender and environmental priorities. Ministries can start tagging expenditures for initiatives such as urban greening, waste management, or renewable energy, which provide benefits for women and communities. Expenditures are being tagged at the level of sub-programs (projects/program activities) in line with the program classification of the budget. An inter-ministerial working group reviews green expenditures tagged by budget users and assesses the adequacy of application of the methodology. At the same time government continues with planned expansion of coverage of budget beneficiaries by the gender responsive budgeting, which is part of the program budgeting. Based on the Budget System Law, Minister of Finance adopted the plan for strengthening the gender responsive budgeting by: 1) requiring that budget beneficiaries define objectives and indicators for measurement of activities related to gender equality; 2) gender responsive objectives need to be harmonized with goals set in relevant strategic documents;<sup>12</sup> 3) objectives and indicators should be adjusted based on experiences from past years; and 4) to improve reporting on achievement results related to gender equality. Reports on gender tagged programs and achievements of gender objectives need to be submitted by budget beneficiaries to the MoF by March 15<sup>th</sup>, each year.<sup>13</sup> As part of the adopted Plan, the MoF published the Guidelines

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<sup>11</sup> State Audit Institution (2023) Performance audit of gender responsive budgeting.

<sup>12</sup> If there is no relevant analysis available for all sectors, it is possible to request a dedicated analysis for sectors that are not covered by national level strategic documents.

<sup>13</sup> In addition, the government's Coordination Body for Gender Equality prepares an annual report on gender equity which includes, inter alia, the assessment of progress with the implementation of the gender responsive budgeting.



for Introduction of Gender Responsive Budgeting across all budget beneficiaries. Both documents are publicly available on the website of the MoF and were sent to all budget beneficiaries as part of budgetary instructions for 2025 budget. Going forward it will be also possible to combine the green budget tagging with gender responsive budgeting which will allow Serbia to identify expenditures addressing both environmental and gender impacts. Climate change disproportionately impacts women due to socio-economic inequalities, including increased workloads from droughts and limited access to financial services, resources, and technology. These challenges highlight the need for coordinated budgetary tracking to address overlapping environmental and gender inequalities.<sup>14</sup>

**33. Expected Results:** Effective tagging of green expenditures is expected to improve the alignment of sectoral workplans and expenditures with climate policy. It will also facilitate the flow of budgetary resources to climate change mitigation and adaptation activities. As such, it will directly promote climate-resilient development while facilitating the transition to a low-carbon economy. At the same time, gender responsive budgeting is key to tackling systemic inequities and fostering inclusive development by integrating gender perspectives into fiscal planning. Expanding the use of gender responsive and green classifications in budget tagging will further ensure that expenditures align with overlapping environmental and gender priorities. Reporting mechanisms will provide insights into how public funds address systemic inequalities, including women’s vulnerabilities to climate impacts. This PA will also help to increase the overall transparency and accountability of public finances, as it was the case with the related PA in DPL1. The result indicator (RI)#1 (a) is the in-year reporting of budget execution (baseline: No, in 2022, and target is twice a year in 2025). This RI was directly linked with the prior action in DPL1 and to the part of the development objective related to the alignment of the fiscal policy with the climate-change goals. An additional gender-focused indicator RI#1 (b) tracks the number of budget beneficiaries from the Republic of Serbia budget implementing program indicators on gender expenditures, with a baseline of 45 in 2022 and a target of 60 by 2025.

## **Prior Action #2: Fiscal Risk Management**

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*Prior Action #2: The Borrower has introduced analysis and estimates of the possible fiscal impact of disasters-related events as the mandatory section of the Fiscal Strategy in order to include that information when assessing the medium-term fiscal framework starting with the 2026 Fiscal Strategy, by amending the Budget System Law article 27 related to the content of the Fiscal Strategy, as evidenced by amendments to the Budget System Law, published in the Borrower’s Official Gazette No 94/2024, dated November 28, 2024.*

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**34. Rationale:** Over the past decade, natural disasters have created substantial fiscal risks in Serbia, directly or indirectly. The 2024 CCDR indicates a range of hydro-meteorological hazards, such as floods, landslides, droughts, heat waves, and wildfires, as well as vulnerability to earthquakes. Increasing risks from climate-induced hazards affect water and energy security, agriculture, and rural and low-income communities, and could disrupt transportation and road infrastructure. Shocks are highly localized and amplify vulnerabilities with downstream consequences on Serbia’s services and productive value chains. Yet, there were no systemic analyses of such risks and their possible fiscal impact. Effective fiscal risk management reduces the risk of unplanned budget expenditures when risks materialize and results in cost savings or better use of public funds. In 2014, for example, floods caused significant damages and economic losses in Serbia, estimated at EUR 1.7 billion. Catastrophe risk modeling conducted with the support of the World Bank estimates that every year there is a 1 percent probability that floods will reduce GDP by more than US\$ 4 billion (equal to 4.5 percent

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<sup>14</sup> UNDP (2015): Gender and Climate Change in the Republic of Serbia.



of 2024 GDP). The total damage from drought is estimated at US\$ 500 million per year, and flooding is a recurring event across the country. Moreover, an estimated 30 percent of the country is at risk of landslides. The MoF established the fiscal risk monitoring function in 2019, and has since developed a Methodology for Monitoring Fiscal Risks, supported by DPL1, that covers natural disasters. However, the fiscal risk section of the government's Fiscal Strategy – which is prepared annually for a rolling three-year period – did not include a dedicated section on natural disasters or an assessment and estimates of potential natural disasters.

**35. Policy Content:** The Budget System Law amendments introduced in November 2024 prescribe in article on the mandatory elements of the Fiscal Strategy (article 27d) that analysis and estimates of the fiscal risks arising from natural disasters should be based on fiscal risk models and included in the fiscal risk section of the Fiscal Strategy. This will provide information to the government on the potential magnitude of macroeconomic and fiscal effects associated with natural disasters in Serbia, as well as risk mitigation strategies (e.g., improvement of the budgeting procedure, or development of contingent financing tools). These analytical elements help the government improve medium-term budgeting and fiscal planning and support mitigation and appropriate mechanisms, such as fiscal buffers, for disaster response. They also represent a crucial step in the transition from emergency response to long-term planning for facing natural disasters. The amendments of the Budget System Law and the inclusion of adequate analysis of natural disaster risks in the Fiscal Strategy are key elements of the broader disaster risk management framework. Such framework also includes the Law on Disaster Risk Reduction and Emergency Management (Official Gazette 87/2018), which established a disaster risk register, the Law on Reconstruction Following Natural and Other Hazards (Official Gazette 112/2015) and the national program for financing risks in case of natural disasters.

**36. Expected Results:** The government will start publishing the assessments of fiscal risks related to natural disasters in the Fiscal Strategy and will be able to assess risks of natural disasters and their potential impact on the fiscal balance – thus allowing for risk mitigation and a more accurate allocation of funds over the medium term. Considering that fiscal impacts from natural disasters in Serbia are largely linked to climate change, as evidenced by the rising frequency and intensity of extreme weather events such as floods, droughts, and heatwaves, the reform under this PA directly reduces climate-related vulnerabilities and hazards. The baseline indicator is “No” since this analysis was not included in the 2022 Fiscal Strategy, while the target is “Yes”, meaning that this analysis will be included in the 2025 Fiscal Strategy. The result of this PA directly benefits from the DPL1 PA that supported the introduction of a methodology and models for fiscal risks monitoring.

## **Pillar II: Accelerate the clean energy transition**

### **Prior Action #3: Renewable Energy**

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*Prior Action #3 (i): The Borrower has updated the regulatory framework for the implementation of the second auctions for renewable energy capacities, based on the amended Law on the Use of Renewable Energy Sources, published in the Borrower's Official Gazette No. 35/2023, dated April 29, 2023, in order to increase renewable energy generation capacities, as evidenced by: 1) Decree on the Quota in the Market Premium System for Wind Farms, published in Borrower's Official Gazette No. 90/2024, dated November 15, 2024; 2) Decree on the Quota in the Market Premium System for Solar Power Plants, published in Borrower's Official Gazette No. 90/2024, dated November 15, 2024; 3) Decision on the Maximum Offered Price for Electricity for the Needs of Auctions in the Market Premium System, published in Borrower's Official Gazette No. 90/2024, dated November 15, 2024; and 4) Amendments to the Decree on market premium and feed in tariff published in Borrower's Official Gazette No. 90/2024, dated November 15, 2024.*

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*Prior Action #3 (ii): The Borrower has mandated the Ministry of Mining and Energy to formulate the hydrogen development and usage program in order to decrease GHG emissions in line with the EU Acquis, as evidenced by the amendments to the Energy Law, published in the Official Gazette of the RS No. 94/2024, dated November 28, 2024.*

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**37. Rationale:** RE sources (excluding hydro) account for less than 3 percent of Serbia’s electricity generation. Large-scale RE power plants commissioned over the last decade were supported by feed-in tariffs (FiTs). To accelerate the pace of deployment of clean energy sources, reduce the unit cost of RE support, and comply with Serbia’s Energy Community commitments, the 2021 Law on the Use of Renewable Energy Sources stipulated the transition from FiTs to competitive auctions as well as the possibility of RE electricity generation by prosumers. In 2023, the Ministry of Mining and Energy (MoME) published a three-year renewable capacity auction plan for 1,300 megawatts (MW). The longer-term vision of RE’s role in Serbia’s energy mix is outlined in the National Energy and Climate Plan, adopted in June 2024 and confirmed in the Energy Sector Development Strategy (ESDS). Serbia aims to add around 3.5 GW of new solar and wind power capacity by 2030 (approximately 554 MW installed in 2023), and to generate 45 percent of its power from renewable sources (up from 37.5 percent in 2023, predominantly from hydro). Modeling done under the CCDR shows that Serbia could meet its 2030 target for emissions reduction (equal to 40.3 percent reduction from 1990 levels) by implementing all measures outlined in the “with additional measures” scenario of the Serbian National Energy and Climate Plan, namely, scaling up solar photovoltaic and wind capacity and building additional natural gas capacity to support the phasedown of coal. Recently approved amendments to the Energy Law support the government’s vision for building on technological changes in the clean energy context, notably via the production of green hydrogen.

**38. Policy Content:** This DPL supports the adoption of new secondary legislation to enable the second round of auctions for RE generation capacity. This set of secondary legislation covers all relevant aspects, including market premium, auction conditions, quotas in the market premium system for solar power plants, and maximum offered price for electricity. With regards to PA#3 (ii), amendments to the Energy Law establish a legal basis for the adoption of a dedicated Hydrogen Development and Usage Program to mandate a new strategic document that will formulate policy actions for the production, transportation, storage and use of hydrogen over the medium term. Elements of the green hydrogen policy framework constitute an integral part of the Energy Sector Development Strategy, adopted by the government on November 7, 2024.

**39. Expected results:** The transition from FiTs to auctions is expected to result in private-sector led growth in RE generation procured at lower cost, thus contributing to a gradual reduction in the dependence on fossil fuel-based power due to the long-term competitive advantage of RE sources in the market. The first RE capacity auctions were successfully completed in 2023 with 400 MW of new wind capacity and 24.2 MW of solar capacity allocated to the most competitive bidders, under a Contract for Difference model. The baseline value for this indicator was zero, because there were no auctions before 2023. The second round of RE capacities auctions for wind (300 MW) and solar (124.8 MW) started in November 2024, therefore the RI was increased to 750 MW for 2025. This RI is linked to the second part of PDO related to the clean energy transition.

#### **Prior Action #4: Energy Efficiency**

*Prior Action #4: The Borrower has: (a) enabled implementation of the energy audit methodology as evidenced by the Rulebook prescribing the content of the energy audit report according to the categories of the energy audit, published in Borrower’s Official Gazette No. 63/2023, dated July 28, 2023; (b) defined the legal framework for eco-design of various*



*energy-related products in order to promote energy efficiency related activities, as evidenced by adopted Set of Rulebooks on the Product Eco-design published in Borrower's Official Gazette.*

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**40. Rationale:** Serbia's per capita energy consumption is among the highest in Europe and the energy sector is a significant source of GHG emissions. The investments required to improve EE are significant across the building sector; for residential housing, many Serbian homeowners have limited financial resources and have difficulty accessing bank credit. Therefore, there is a need for a sustainable mechanism to finance residential EE. DPL1 supported the establishment and operationalization of the Energy Efficiency Administration (EEA) within the MoME to implement national EE policies and manage the government's EE investment programs. The Law on Energy Efficiency and Rational Use of Energy<sup>15</sup> introduces obligatory energy audits to be conducted at least every four years for designated organizations under the energy management system and for large legal entities defined by the law governing the field of accounting. Secondary legislation is required to implement these provisions. Furthermore, the national regulatory framework regarding the product eco-design requirements needs to be aligned with the EU acquis.

**41. Policy Content:** Prior Action #4 supports the adoption of regulations on the licensing of energy auditors and of an energy audit methodology to regulate the implementation of the Law on Energy Efficiency and Rational Use of Energy. Moreover, since June 2023 the MoME has adopted nine rulebooks governing eco design requirements across a broad spectrum of products. These rulebooks were adopted throughout 2023 and 2024 and are not only expected to increase EE efforts across the production and use of various products but will help to align Serbian legislation with those of the EU.<sup>16</sup>

**42. Expected results:** The financing mobilized for residential EE improvements through government support programs is expected to increase from zero in 2020 (baseline) to US\$ 38 million per year by 2025 (target value for this indicator). This RI is clearly measurable and linked to the PDO. The implementation of rulebooks on eco-design requirements is expected to result in more efficient use of energy and greater energy savings across a range of products used by households and businesses thereby directly contributing to the reduction of GHG emissions.

#### **Prior Action #5: Energy Market Reform**

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*Prior Action #5 (i): The Borrower has approved the transformation of the legal form of the power company "Elektroprivreda Srbije" from a public enterprise into a joint-stock company, as evidenced by Government Decision 05 No.023-3090/2023, dated April 6, 2023, published in Borrower's Official Gazette No. 27/2023, dated April 7, 2023.*

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<sup>15</sup> In force since April 2021.

<sup>16</sup> The following nine rulebooks on eco-design were adopted until September 2024: i) Rulebook on eco-design requirements for simple set top boxes ("Official Gazette of RS", No. 45/23 of 4 August 2023); ii) Rulebook on eco-design requirements for standby and off mode, and networked standby, electric power consumption of electrical and electronic household and office equipment ("Official Gazette of RS", No. 45/23 of 4 August 2023); iii) Rulebook on eco-design requirements for solid fuel boilers ("Official Gazette of RS", No. 120/23 of 29 December 2023); iv) Rulebook on eco-design requirements for solid fuel local space heaters ("Official Gazette of RS", No. 117/23 of 27 December 2023); v) Rulebook on eco-design requirements for power transformers ("Official Gazette of RS", No. 6/24 of 26 January 2024); vi) Rulebook on eco-design requirements for domestic ovens, hobs and range hoods ("Official Gazette of RS", No. 11/24 of 14 February 2024); vii) Rulebook on eco-design requirements for air conditioners and comfort fans ("Official Gazette of RS", No. 11/24 of 14 February 2024); viii) Rulebook on eco-design requirements for local space heaters ("Official Gazette of RS", No. 47/24 of 24 May 2024); and ix) Rulebook on eco-design requirements for vacuum cleaners ("Official Gazette of RS", No. 77/24 of 20 September 2024).



*Prior Action #5 (ii): The Borrower through its Ministry of Environmental Protection has issued first GHG emissions permits to the thermal power, cogeneration and heating plants of the "Elektroprivreda Srbije" JSC, based on previously approved GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions of "Elektroprivreda Srbije" JSC, pursuant to the provisions of the Law on Climate Change, as evidenced by the public list of issued permit, published by the Ministry of Environmental Protection.*

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**43. Rationale:** As the largest GHG emitter in the Western Balkans region, Serbia needs to continue its efforts to decouple economic growth from emissions, particularly in the energy sector. Serbia accounted for 51 percent of total GHG emissions in the Western Balkans in 2019, excluding those from land use, land-use change, and forestry. Energy-related emissions from fuel combustion, transport, and fugitive emissions, account for about 80 percent of Serbia's total emissions. In 2019, electricity and heat generation accounted for the largest share of emissions (55 percent), followed by transport (12 percent), agriculture (11 percent) and waste (10 percent).<sup>17</sup> EPS accounts for approximately 91 percent of the country's installed electricity generation capacity (out of which thermal power plants account for about 55 percent) and is a dominant player in the local electricity market. In addition to mining, generation, electricity wholesale and retail supply, the company acts as the supplier of the last resort and the guaranteed supplier to households and small customers at regulated prices. Most of the coal consumed is produced locally, with the mining sector being dominated by the state-owned power utility EPS. The 2024 CCDR underlines that the presence of SOEs, particularly in high-emitting sectors, poses challenges to market dynamics and climate adaptation. Under the Third EU Energy Package, Serbia had an obligation to fully unbundle distribution system operator from the vertically integrated national power utility company EPS, and to introduce competition in electricity generation and supply. Transforming EPS into a joint stock company is seen as steppingstone towards improvements in its governance, organizational structure, and accountability, and is expected to result in better operational and financial results and improved investment management.

**44. Policy Content:** EPS was transformed from public enterprise into a closed joint-stock company in April 2023. This allowed for improved management and oversight of its operations, including through streamlined financial reporting and organizational changes. After the legal transformation, the new EPS Supervisory Board members were appointed in June 2023 and a competitively recruited General Manager was appointed in June 2024. Finally, the EPS strategic corporate restructuring plan was adopted in May 2024. These changes should allow for digitalization of business procedure and services to the clients, while increasing the safety level for the operations and data, more efficient investment management and improved human resource management across the entire company. The aim of these reforms is to reach targets set in the Green Agenda and to make the EPS internationally competitive.<sup>18</sup> The second part of the prior action relates to development of GHG emissions monitoring plans, so that EPS will comply with the new regulatory framework linked to the Law on Climate Change.

**45. Expected results:** The transformation of EPS into a joint-stock company under PA #5 (i) is expected to establish an enabling environment for the improvement of its business practices, operational efficiency, corporate governance, and use of human resources, and to create better conditions for market development. The approval of GHG emissions monitoring plans for measuring and reporting of carbon emissions at key EPS thermal power plants is foreseen to enable that a growing share of EPS thermal generation output (about 95 percent) can be captured in an emissions monitoring system by the end of 2025. In turn, accurate data on GHG emissions will enable the identification of emission hotspots

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<sup>17</sup> The World Bank (2024) CCDR.

<sup>18</sup> Based on public statements by the EPS: <https://www.eps.rs/lat/vesti/Stranice/transformacije-eps.aspx>.



and prioritization of mitigation measures, as well as enhance accountability and compliance with national and international climate commitments. Two results indicators are related to this prior action. The first one measures progress with the organizational transformation of EPS (unbundling of the distribution system operator), while the second indicator measures the share of power plant output with approved carbon emissions monitoring system (with a target of 95 percent in 2025). The second indicator is not only connected to the second part of PDO (on clean energy transition) but it is also linked with the third part of the PDO (related to climate change).

### **Pillar III: Strengthen the legal framework for GHG mitigation and pollution management**

#### **Prior Action #6: GHG Emissions**

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*Prior Action #6: The Borrower has created a legal and institutional environment to strengthen the economywide monitoring and reporting of GHG emissions, as evidenced by: 1) the Rulebook on the content of the GHG inventory, published in Borrower's Official Gazette No. 55/2023 on July 7, 2023; 2) the Decree types of data, bodies and organizations that submit data, published in Borrower's Official Gazette No. 43/2023, dated May 5, 2023; 3) the Rulebook on Monitoring and Reporting of GHG emissions that enabled the operationalization of a national MRV IT platform as well as the GHG permitting system (published in Borrower's Official Gazette No. 118/2023, dated December 28, 2023); and 4) the adoption and publication of the first National Inventory of GHG emissions, as evidenced by the Government Decision 05 No. 353-11715/2024-2, dated December 5, 2024.*

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**46. Rationale:** Serbia's revised nationally determined contributions, approved in August 2022, set an ambitious target of reducing GHG emissions by 33.3 percent as compared to 1990 levels by 2030. The Law on Climate Change, adopted in March 2021, provides the legal framework for strengthening the monitoring of GHG emissions and the necessary reporting of the reductions by installations. DPL1 supported the government's efforts towards establishing a MRV system allowing Serbia to align with the requirements set by the EU Emissions Trading System (ETS). As noted in the Serbia CCDR, these positive steps need to be complemented by further efforts towards a nationwide emission verification and reporting system, allowing for the future introduction of carbon pricing tools and to respond to the introduction of the EU's Carbon border adjustment mechanism (CBAM).

**47. Policy Content:** DPL2 strengthens the monitoring and reporting of GHG emissions through the adoption of secondary legislation critical to implementing and achieving the key objectives of Serbia's Law on Climate Change (Article 25) and aiming at setting up emissions accounting systems that will be at the heart of any future carbon pricing scheme, including: i) the Rulebook on the content of National GHG Inventory and its Reporting; ii) the Regulation specifying who is authorized to submit data for the preparation of the National GHG Inventory; and iii) the Rulebook on Monitoring and Reporting of GHG emissions. Aligned with EU's Directive 2003/87/EC, and Regulation (EU) 2018/1999, these bylaws are crucial to setting up or joining any carbon pricing scheme such as the EU ETS, as well as for responding to the EU CBAM. To support the formalization of Serbia's GHG accounting system, and ensure transparency and accountability on its functioning, the PA supports the first publication of Serbia's National Inventory of GHG Emissions as part of the State of the Environment Report. The prior action is aligned with CCDR recommendations DM1 and EF2 on developing systems supportive of carbon pricing instruments; EF5 on enhancing readiness to CBAM compliance, IR2 on the introduction of GHG inventory, and IR3 on accountability and transparency.



**48. Expected Results:** Along with the legislation supported by DPL1, the adoption of the bylaws supported by DPL2 will enable the operationalization of a national MRV IT platform and the GHG permitting system for installations, allowing for tracking progress in GHG emission reductions, and the introduction of appropriate mitigation measures. Three sub-indicators measure the results of this prior action. First, the share of GHG permits issued, relative to the number of submitted applications to reach at least 40 percent in the first two years of implementation (Target is for 2025). Second, the GHG permitting tool should be done online in the first year of implementation (target is 2024). Third, the government should increase the number of capacity building trainings from zero (in 2020) to 7 in 2025.

#### **Prior Action #7: Waste Management**

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*Prior Action #7 (i): The Borrower has developed a strategic and legislative framework for sludge management in order to align with the EU sludge legislation, as evidenced by: 1) the National Sludge Management Program and Action Plan, published in the Borrower's Official Gazette No. 84/2023, dated October 5, 2023, and 2) the Decree on Sewage Sludge Management, published in Borrower's Official Gazette No. 103/2023, November 21, 2023.*

*Prior Action #7 (ii): The Borrower has adopted legislation needed for environmentally sound management and increased reuse and recycling rates of the construction waste by adopting the Decree on management of construction and demolition waste, published in Borrower's Official Gazette No. 93/2023, dated October 27, 2023, as corrected pursuant to the corrigendum published in Borrower's Official Gazette No. 94/2023, dated October 30, 2023.*

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**49. Rationale:** As noted in the Serbia CCDR, the establishment of a well-performing waste management system is essential to curb methane emissions and to make the waste sector more resilient to climate-related shocks. The Waste Management Program in the Republic of Serbia (2022–2031) indicates that sewage sludge is a growing waste stream. In addition to harboring various pollutants such as heavy metals, pathogens, and organic contaminants, sludge is an important and growing source of methane – a GHG with 28 times more warming potential than carbon dioxide. Current practice in Serbia entails the disposal and temporary storage of sewage sludge at or in the vicinity of treatment plants until more appropriate treatment/re-use options become available. In addition, so far ineffective sludge management in Serbia has historically contributed to GHG emissions through the release of methane from poorly managed sludge and the reliance on landfills without energy recovery. To comply with EU requirements, significant investments are both ongoing and planned into the extension of the sewage network by 10,000 km and the construction/upgrade of about 360 wastewater treatment plants. The legal basis for sludge management was established in 2023 through amendments to the Law on Waste Management, as supported by DPL1. However, a more strategic long-term solution for sludge management and legal framework was missing. Amendments to the Law also created the framework for management of another growing waste stream. The construction sector in Serbia is a significant contributor to GHG emissions, primarily through energy use, material production, and waste generation. Currently, construction and demolition waste (CDW) is largely disposed of in illegal landfills, even though 80 percent of such waste can be recycled, with substantial potential to abate GHG emissions from the construction sector.

**50. Policy Content:** DPL2 supports the adoption of the National Sludge Management Program for the period 2023–2032 and of the action plan and Regulation on Sludge Management in line with relevant EU sludge legislation, both of which were envisaged in the amendments to the Law on Waste Management. The Regulation on Sludge Management establishes the regulatory framework for the use of sludge in agriculture (transposing corresponding EU requirements), as well as for sludge treatment involving reuse and disposal operations, thereby also contributing directly to climate change mitigation. The new legislative framework related to sludge management has been implemented since its



introduction in 2023. According to the Law on Waste Management and the program for further aligning the legal framework with EU legal standards, the Regulation on CDW Management defines rules and guidelines for managing waste generated during construction and demolition activities, including on recycling, quality assurance, and material reuse. The prior action is aligned with CCDR Recommendation RA2 on enhancing waste management systems and infrastructure.

**51. Expected Results:** The treatment options set out in the National Sludge Management Program will guide the design of sludge management facilities, with positive impacts in the medium term as sludge treatment investments materialize. In addition, the PA directly contributes to climate change mitigation by promoting sustainable sludge treatment practices (including anaerobic digestion) and reducing methane emissions from wastewater. By establishing the missing legal framework for handling CDW, the adoption of the CDW Regulation is expected to substantially reduce the amount of landfilling and lead to the increase in recycling rates, currently extremely low, and thereby displacing substantial amounts of GHG emissions stemming from construction. By promoting recycling and reuse of materials, reducing demand for energy-intensive raw materials, and encouraging the use of low-carbon construction practices, the CDW Regulation will directly contribute to Serbia's climate change mitigation strategies while fostering a circular economy in the construction sector. Three sub-indicators will be used to measure the results of this prior action. First, accessibility of the population to sanitary landfills is expected to increase from 42 to 55 percent during 2021-2025. Second, the number of unsanitary landfills under remediation will increase from zero in 2020 to 4 in 2025. Third, multiple management/disposal options for sewage sludge will be created in the Serbian strategic and legal framework.

#### **Prior Action #8: Air Quality**

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*Prior Action #8: The borrower has enabled issuance of emission permits through the new online portal by adopting: 1) the Rulebook on the application for an integrated pollution prevention and control permit, as published in Borrower's Official Gazette No. 4/2024, dated January 19, 2024; and 2) the Rulebook on the format and content of the application for integrated permit, published in Borrower's Official Gazette No. 4/2024, dated January 19, 2024.*

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**52. Rationale:** Serbian cities are often among the most polluted cities in the world in winter. According to the World Health Organization (2019), exposure to PM2.5 accounted for 3,585 premature deaths per year across 11 surveyed Serbian cities in 2010-2015, including 1,796 in Belgrade. The CCDR highlights how Serbia's high carbon intensity is closely linked to its air pollution challenges, with emissions from industrial installations impacting environmental quality. Climate change exacerbates air quality issues by intensifying heatwaves that increase ground-level ozone formation, while the same sources that impact air quality (e.g., fossil fuel use and biomass burning) contribute to GHG emissions, creating a mutually reinforcing cycle.<sup>19</sup> Serbia's EU Report 2022 notes that alignment with most of the EU's industrial pollution and risk management acquis is at an early stage, including with regard to the Industrial Emissions Directive (IED).<sup>20</sup> Current gaps revolve around both lack of transposition of the directive's requirements as well as slow implementation.

**53. Policy Content:** One of the main objectives of the National Air Protection Program adopted in 2022 is a reduction in emissions of air pollutants from industrial processes. Operators of industrial installations must obtain an Industrial Pollution Prevention and Control integrated permit which will ensure that the whole of environmental impacts, including emissions into the air, are considered. The list of Industrial Pollution Prevention and Control facilities currently includes 220 operators, and the number will increase once the new Law on Industrial Pollution Prevention and Control includes

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<sup>19</sup> World Bank (2024): Western Balkans Country Climate and Development Report

<sup>20</sup> [https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/serbia\\_en](https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/serbia_en)



additional sectors for permitting. Considering the relatively low number of permits issued, steps aimed at facilitating permitting process to make it faster and more efficient were undertaken. The prior action is aligned with CCDR recommendation DM6 on enhancing standards and reinforcing compliance with regard to industrial GHG and pollutant emissions.

**54. Expected Results:** The issuance of integrated permits for industrial operators will ensure that pollutant emissions from the installations will be as required by the IED's best available techniques reference document and relevant national documents i.e. negotiating position for Chapter 27, within the EU accession process. Since industrial processes in Serbia contribute significantly to both GHG emissions and PM levels (as emissions from industries emit both carbon dioxide and fine particulates), this reform will tackle the challenges of climate change and air quality deterioration simultaneously. In particular, requiring installations to comply with Best Available Techniques, which both improve efficiency and reduce GHG emissions per unit of product, compliance is expected to lead to either retrofitting and upgrading of technologies (thereby lowering related emissions), or in the closure of non-compliant installations. This will contribute to further reducing emissions and meeting the National Air Protection Program air quality targets. Two sub-indicators measure the results of this prior action. First, the share of medium combustion plants (MCPs) with thermal power between 1 to 50 MW relative to the total number of MCPs registered in the National Register of Pollution Sources database to be increased from zero in 2020 (baseline) to 35 percent in 2025, compliant with the EU Directive 2015/2193 on the limitation of emissions of certain pollutants into the air from MCPs. Second, the number of integrated permits issued to be increased from 36 in 2020 (baseline) to 55 in 2025 (target).

### C. Consultations and Collaboration with Development Partners

**55. The proposed operation is closely aligned with the key priorities of a cluster of Serbia's development partners.** This operation has been prepared with, and is financed in parallel by AFD and KfW with two parallel loans worth up to EUR 135 million each, as it was the case with the first DPL in the series. Reforms supported by this DPL, like all government draft strategies and legal acts, underwent online public consultations through a dedicated website run by the relevant line ministries and the Public Policy Secretariat. Such online consultations are accessible to all individuals and institutions (including non-governmental organizations), which can post comments.<sup>21</sup> Additional, face-to-face consultations were carried out on PA#7 and PA#8 having in mind their broader impact on society. Overall, several useful comments and suggestions were received – about the timing, sequencing, and content of the reforms supported. These comments were taken into consideration during the process of policy formulation.

**56. Several reforms supported by this DPL aim to improve transparency and accountability around environmental and climate priorities and related funding.** However, without effective communication and citizens' engagement, trust in government actions may diminish, especially if green activities are perceived to be misaligned with the priorities of local communities or to those carry hidden costs. To mitigate these risks, it is crucial to strengthen communication around these reforms, within the framework of applicable rules and instruments for public consultations and citizens engagement (like, for instance, the recently introduced citizens guide to the budget and with following government's rules on public consultations) with clear messaging. Actively involving diverse stakeholders, including marginalized groups, in planning fosters inclusivity and trust. Moreover, outreach efforts should be tailored to the context of local communities, utilizing

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<sup>21</sup> The Ministry of Environmental Protection has a dedicated website where all public consultations are recorded and all comments are captured: <https://www.ekologija.gov.rs/informacije-od-javnog-znacaja/izvestaji-sa-javnih-rasprava>



culturally sensitive communication strategies to connect with them and demonstrate the tangible benefits of environment and climate-friendly projects and activities, while the focus so far has mainly been on national level consultations.

#### IV. OTHER DESIGN AND APPRAISAL ISSUES

##### A. Poverty and Social Impacts

**57. Prior actions supported by the DPL are not likely to have significant social and distributional effects.** Overall, the policies and measures supported by the program, by and large, are expected to improve welfare, including for the poor and vulnerable, particularly in the medium term. Some actions have risks of potential adverse short-term social and distributional effects, but will be adequately mitigated by existing country systems, policies and programs that are in place as described below.

**58. PA#3 is not expected to have significant adverse poverty or social impacts.** Due to the small share of renewable energy in Serbia, the cost of integrating wind and solar energy into the grid is very low and not likely to cause price increases for consumers. The PA may lead to new construction of wind farms and, potentially, hydrogen plants. When such infrastructure is designed in the future, it is expected that the process will follow Serbia's national framework for assessing and addressing site-specific adverse social impacts based on laws such as Environment Impact Assessment, Land acquisition, and Labor. This includes screening of potential social impacts, as well as impacts explicitly related to land acquisition, impacts on the surrounding population and vulnerable groups, safety issues related to hydrogen production and transportation, and to have adequate consultations.

**59. Potential risks of employment-related impacts for PA#5 and PA#6 will be mitigated under the existing Labor Law.** PA #5 may have negative social impacts from the continued reorganization of EPS as a joint-stock company as it may involve personnel reorganization (including downsizing) with potentially negative welfare implications for affected staff. While no immediate impact of PA#6 is expected on the workforce, in the medium to long run technological improvements to reduce emissions may lead to staff reduction. Should labor be negatively affected by PAs #5 and #6, all companies, including EPS, are expected to follow the Labor Law. Serbia has a relatively well-developed policy and legal framework on labor relations and retrenchment, although some gaps exist.<sup>22</sup> Labor legislation provides adequate protection to workers in instances when due to technological, economic or organizational changes a particular job becomes redundant, or the volume of work is reduced. In such cases, the Labor Law requires that the employer prepare a retrenchment plan, on which unions must be consulted, with laws and collective agreements setting out provisions for redundancy payments and formulas for their calculation.

**60. PA#6 may lead to modest price increases that have some social impacts at least in the short term, which will likely be offset in the medium term.** In the short term, the implementation of the regulatory framework for monitoring and reporting GHG emissions may result in higher costs for large polluting companies, which could be passed on to customers. While available information does not allow for an exact estimation of potential cost increases, the costs of compliance are expected to be moderate at most, relative to typical capital expenditures and operating costs.<sup>23</sup> In the medium term, the cost increase is likely to be offset by savings from energy efficiency and reduced production costs.

<sup>22</sup> For instance, related to the active labor market programs and the need to strengthen further the National Employment Service.

<sup>23</sup> For instance, in the US, the monitoring and reporting costs range between US\$20,000-200,000 per year, with the top of the range indicating the first-year costs and the bottom closer to recurring costs over the following year(s). As most of these costs are labor expenses (administrative, consultancy services, etc.), they are likely to be lower in Serbia. In contrast, EPS annual operating expenses averaged about US\$ 2.9 billion over 2022-2023 period.



**61. PA#7, on the National Sludge Management Program and CDW regulation will have positive social effects in the medium term but may increase costs for construction sector in the short term.** Increased investments by the central government in waste-treatment facilities will expand access to a clean environment without putting pressure on the municipalities to pass costs on to consumers via higher tariffs. On the other hand, new regulation for CDW may increase unit costs for construction companies, which may get passed on through higher prices for new buildings.

**62. All other prior actions are expected to have neutral or positive impacts.** Serbia is prone to natural hazards, such as floods and droughts, which disproportionately hurt poorer and marginalized segments of the population. By contributing to higher spending and investment towards climate resilience, PA#1 will benefit poor and vulnerable populations. PA#2 is expected to deliver poverty-related and social benefits by supporting a better assessment of the fiscal impacts of disaster-related events, and position the government to better plan, anticipate and respond to such events with adequate resources. PAs #3 and #4 contribute to jobs creation, including low-skill jobs, in the private sector, by improving conditions for investment in energy efficiency and renewable energy that will help companies (including small and medium enterprises) and entrepreneurs start or expand businesses in energy services, energy audits, building renovation, supply of RE and EE technologies, and other related areas and by allowing for an increase in domestic and foreign investment in Serbia. The proposed set of measures under Pillar III is expected to improve livelihoods by reducing air pollution and unmanaged waste in the near term. Positive social and poverty implications are expected from PAs #7 and #8, as low-income households and marginalized groups are more adversely impacted by contaminated air and water due to higher exposure to pollutants in the areas where they tend to live, and more limited access to protection measures and healthcare.

## **B. Environmental, Forests, and other Natural Resources Aspects**

**63. The operation is expected to have overall positive effects on the environment, forests and natural resources.**<sup>24</sup> The proposed PAs under Pillar I are expected to increase the government's capacity to direct public resources towards stated environmental policy objectives (PA#1) and to enhance planning for the fiscal impacts of natural disasters, including on natural ecosystems (PA#2). PAs under Pillar II are expected to increase the share of RE sources in Serbia's energy mix, alleviating the environmental burden of fossil fuel consumption, with positive effects on both the population and environmental assets. Complemented by the effects of PA#5 on improving the conditions of energy market development, PA#3 supports incentives to wind and solar power generation aimed at strengthening the enabling environment for private sector investment in renewables, as well as the establishment of a hydrogen program, as steppingstones in Serbia's decarbonization pathway. In addition to lowering Serbia's per capita energy consumption, the introduction of mechanisms to support financing of EE investments (PA#4) will contribute to lowering carbon emissions and air pollution levels. Prior Actions under Pillar III will have direct positive effects due to the expected reductions in GHG and other air pollutants emissions, and improvements in the legislative framework for the management of hazardous waste streams such as sewage sludge and construction and demolition waste.

**64. Despite its substantial expected benefits from reduced energy consumption and consequent reduction in emissions of GHGs and air pollutants, the improved legislative, regulatory and institutional framework for EE and RE supported by PAs #4 and #5 might be associated with limited negative environmental effects.** The mobilization of investments in residential EE and RE activities could be associated with the generation of hazardous and non-hazardous waste from EE renovation works (e.g., broken and old light bulbs, old electrical appliances, paints, debris, and other CDW).

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<sup>24</sup> This operation was also screened for climate related risks and the exposure rating is No / Low. The project location has not experienced climate and geophysical hazards in the past and there is no indication that these may become more intense or more frequent in the future.



RE investments could also have potential negative environmental effects due to the installation and operation of RE systems. These include land use change, noise, generation of solid and hazardous waste, and threats to wildlife such as birds and bats. Nevertheless, as mandated by Serbia's Environmental Impact Assessment regulatory system, any impacts will be identified and managed through adequate environmental impact assessment and appropriate mitigation measures.

**65. Serbia's existing environmental legal framework provides an adequate system to ensure that policy implementation adheres to environmental protection and sustainability principles, but institutional weaknesses remain.** Thanks to the harmonization with the EU *acquis*, Serbia benefits from a sophisticated legal framework for environmental protection. Key pieces of legislation include: 1) the Law on Environmental Impact Assessment which regulates the impact assessment procedure, the content of the environmental impact assessment study, consultation with key stakeholders, cross-border notification for projects that may have significant environmental impacts on another country, and monitoring and other issues of importance for Environmental Impact Assessment; and 2) the Law on Strategic Environmental Impact Assessment, which regulates the conditions, manner, and procedure for assessing the impact of certain plans, policies and Programs in order to ensure protection of the environment. However, mechanisms for effective monitoring and enforcement of the above legislation and related policies and regulations are challenged by weak institutional capacity. Measures to address institutional gaps include strengthening coordination across government and between central and subnational government, as well as increasing capacities at national and local levels, in terms of number of staff and required knowledge and skills.

### C. PFM, Disbursement, and Auditing aspects

**66. Fiduciary arrangements for the DPL are satisfactory, including PFM systems and the foreign exchange control environment.** As identified by the 2021 PEFA assessment and follow-up dialogue, treasury operations, budget formulation and budget execution have been assessed as reliable. Budgets are reliable, with low to moderate deviations of actual revenue and expenditure outturns relative to those budgeted. Only the deviations in the composition of expenditures by function were more significant. The budget is presented in line with all relevant classifications and broadly in line with the Government Finance Statistics 2014 Manual, while the comprehensiveness of budget documentation is adequate. More advanced PFM elements such as strategic and medium-term perspective in budgeting, public investments and asset management, fiscal risk monitoring and performance management, are being developed further. The budget is published in a timely manner, within days of the adoption of the Law on Budget by Parliament.

**67. The control environment has been strengthened, including through external audit and parliamentary scrutiny of executed budgets.** Overall, the existing system of internal controls is assessed as appropriate. The budget is executed through the Consolidated Treasury Account (CTA) operated by the Treasury Administration. The Treasury Administration is effective and reliable. Diagnostic assessments and external reviews confirm the reliability of systems of payments and internal controls within the NBS, where Designated Accounts for all Bank loans are held. An update of the IMF safeguards assessment of the NBS was completed in June 2023. The safeguards framework of the NBS remains robust with strong operational controls, high quality financial reporting, and internal and external audit processes aligned with international standards. While the legal framework and governance arrangements are broadly appropriate, the assessment recommended further solidifying the Council's oversight by providing for recourse to external expertise (when needed) and efforts to strengthen the risk management function. The proposed DPL is included in the Law on Budget for 2025. The proposed loan will follow the Bank's disbursement procedures for DPLs. The IBRD will deposit the proceeds of the loan into a foreign currency deposit account (in euros) that forms part of the country's official foreign exchange reserves, designated by the Borrower, to be held at the NBS. This account will be managed by and subject to control of the MoF. The Borrower shall ensure that upon the deposit of the loan into said account, it is available to finance budgeted



expenditures and the management of public debt and is accounted for in the budget management system. No audit of the deposit account will be required, but rather a confirmation letter is to be provided. The MoF will provide the IBRD with written confirmation that the loan proceeds were received in an account of the government that forms part of the country's official foreign exchange reserves, and an equivalent amount was accounted for in the country's budget management system. This confirmation letter should be delivered within 30 days of the receipt of loan proceeds.

#### D. Monitoring, Evaluation, and Accountability

**68. The MoF coordinates the overall implementation of the DPL program.** The MoF is the main counterpart for this operation and coordinates the preparation and implementation of supported reforms with all relevant line ministries and institutions, which report on the PAs and RIs to the MoF as and when requested. The MoF is responsible for reforms under Pillar I (in close coordination with the MoEP), while reforms under Pillar II are almost entirely under the responsibility of the MoME. Some PAs under this pillar are coordinated with the MoF since they have budgetary implications. Pillar III is almost entirely under the responsibility of the MoEP in close coordination with MoF. In general, government agencies have the capacity to provide good and timely data that is generally reliable and readily available, and increasingly in line with international standards (those of Eurostat in particular).

**69. Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing (DPF) may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. 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 Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

#### V. SUMMARY OF RISKS AND MITIGATION

**70. The overall risk for this operation is moderate.** All categories are assessed as either moderate or low risk after mitigation. Despite low or moderate ratings, several mitigations measures were taken during the preparation of this DPL series to ensure that its development objectives are reached. On the governance front, which has suffered some setbacks over recent years, actions supported by this operation will be instrumental in supporting fiscal transparency as well as the transparency of the RE market.<sup>25</sup> Similarly, despite the uncertain global economic outlook, macroeconomic risk is rated moderate – this DPL series supports reforms aimed at strengthening budget management and the assessment of fiscal risks. In addition, in October 2024, the government successfully completed the ongoing IMF SBA and requested a new program (PCI), which would also help to mitigate macroeconomic risks over the medium term. Finally, the DPL series is

<sup>25</sup> There are allegations of forced labor in the production of solar panels and components. This DPF focuses on policies and institutional reforms in Serbia. DPF proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.



closely aligned with a series of complementary operations and technical assistance as part of the WBG’s broader country program in Serbia, including the Improving Public Financial Management for the Green Transition Program for Results and related TA provided in the area of PFM.

**Table 5: Summary Risk Ratings**

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Low
4. Technical Design of Project or Program	● Low
5. Institutional Capacity for Implementation and Sustainability	● Moderate
6. Fiduciary	● Moderate
7. Environment and Social	● Low
8. Stakeholders	● Moderate
9. Other	
<b>Overall</b>	● Moderate



**ANNEX 1. Policy and Result Framework**

Prior actions for DPL 1 and DPL2		Results		
Prior Actions under DPL 1	Prior Actions for DPL 2	Indicator Name	Baseline	Target
<b><i>Pillar I - Program Development Objective A: Align fiscal management with the climate-change goals</i></b>				
<p><b>Prior Action #1:</b> The Borrower has introduced the legal obligation to publish in-year budget execution information (covering the first six and nine months of budget execution), with functional and administrative breakdowns as in the original budget, to increase transparency in budgetary expenditures, including on environment and climate related activities, as evidenced by amendments to the Budget System Law, duly published in the Borrower’s Official Gazette No. 138, on December 12, 2022.</p>	<p><b>Prior Action #1:</b> The Borrower has increased transparency in budgetary process by: (i) introduction of tagging of “green” budget expenditures in order to make more transparent information on spending on environment and climate-related activities by enacting amendments to the Budget System Law, Article 35, related to budgetary instructions and Article 79 related to the content of the final account, as evidenced by amendments to the Budget System Law, published in the Official Gazette No. 94/2024, dated November 28, 2024, and (ii) adoption of the annual plan for expansion of the coverage of budget beneficiaries with gender responsive budget, as evidenced by the Plan for introduction of the gender responsive budget in 2025, adopted by the Ministry of Finance on March 29, 2024.</p>	<p><b>Results Indicator #1:</b></p> <p>a) In-year reports on central government’s budget execution published.</p> <p>b) Number of budgetary beneficiaries which include budget program indicators on gender expenditures.</p>	<p>a) No (2022)</p> <p>b) 45 (2022)</p>	<p>a) Yes, two in-year reports (2025)</p> <p>b) 60 (2025)</p>
<p><b>Prior Action #2:</b> The Borrower, pursuant to the Methodology for Fiscal Risk Monitoring, developed fiscal risk models to quantify fiscal risks over the medium-term, as included in the Fiscal Strategy, and introduced the obligation to</p>	<p><b>Prior Action #2:</b> The Borrower has introduced analysis and estimates of the possible fiscal impact of disasters-related events as the mandatory section of the Fiscal Strategy in order to include that information when assessing the</p>	<p><b>Results Indicator #2:</b></p> <p>The borrower started publishing the assessments of fiscal risks related to natural disasters in the Fiscal Strategy</p>	<p>No (2022)</p>	<p>Yes (2025)</p>



Prior actions for DPL 1 and DPL2		Results		
produce in-year and annual fiscal risk reports, as evidenced by Government Decision 05 No. 40-9575/2021, duly published in the Borrower’s Official Gazette No. 99, dated October 22, 2021.	medium-term fiscal framework starting with the 2026 Fiscal Strategy, by amending the Budget System Law article 27 related to the content of the Fiscal Strategy, as evidenced by amendments to the Budget System Law, published in the Borrower’s Official Gazette No 94/2024, dated November 28, 2024.			
<b>Prior Action #3:</b> The Borrower has introduced additional environmental and climate-related criteria to evaluate public investment projects, submitted by Budget Beneficiaries to the MoF for financing from the Government’s budget, and prioritize those public investment projects with positive impact on the environment and climate change, as evidenced by the amendments to the Decree on Management of Capital Projects, duly published in the Borrower’s Official Gazette No. 139, dated December 16, 2022.		<b>Results Indicator #3:</b> <sup>26</sup> Share of environment and climate change related projects in total capital budget.	n.a. (2021)	15 percent (2025)
<b>Pillar II – Program Development Objective B: Accelerate the clean energy transition</b>				
<b>Prior Action #4:</b> The Borrower, pursuant to the Law on the Use of Renewable Energy Sources, has (i) enabled implementation of auctions for renewable energy capacity, as evidenced by (a)	<b>Prior Action #3 (i):</b> The Borrower has updated the regulatory framework for the implementation of the second auctions for renewable energy capacities, based on the amended Law on the Use	<b>Results Indicator #4:</b> (a) Renewable energy capacity enabled with policy support <sup>27</sup>	a) 0 (2021)	a) 750 MW (2025)

<sup>26</sup> This RI captures the results from Prior Action #3 under DPL1 and relevant follow-up actions by the government.

<sup>27</sup> This is part of Corporate Results Indicators.



Prior actions for DPL 1 and DPL2		Results		
<p>the Decree on market premium model agreement (Decree 05 No. 110-9353/2021-1), and (b) the Decree on market premiums and feed-in tariff (Decree 05 No. 110-9352/2021-1), both duly published in the Borrower’s Official Gazette No. 112/2021, dated November 26, 2021; and (ii) introduced a simplified registration procedure for prosumers, as evidenced by the Decree on the criteria, conditions, and manner of calculating mutual financial claims between self-consumers and suppliers (Decree 5 No. 110-7592/2021-2) duly published in the Borrower’s Official Gazette No. 83, dated August 27, 2021.</p>	<p>of Renewable Energy Sources, published in the Borrower’s Official Gazette No. 35/23, dated April 29, 2023, in order to increase renewable energy generation capacities, as evidenced by: 1) Decree on the Quota in the Market Premium System for Wind Farms, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 2) Decree on the Quota in the Market Premium System for Solar Power Plants, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 3) Decision on the Maximum Offered Price for Electricity for the Needs of Auctions in the Market Premium System, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; and 4) Amendments to the Decree on market premium and feed in tariff published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024.</p> <p><b>Prior Action #3 (ii):</b> The Borrower has mandated the Ministry of Mining and Energy to formulate the hydrogen development and usage program in order to decrease GHG emissions in line with the EU Acquis, as evidenced by the amendments to the Energy Law, published in the Official Gazette of the RS No. 94/2024, dated November 28, 2024.</p>	(b) MW of cumulative renewable energy capacity procured through auctions.	b) 0 (2021)	b) 750 MW
<b>Prior Action #5:</b> The Borrower has revised the Rulebook on Internal Organization and Job	<b>Prior Action #4:</b> The Borrower has: (a) enabled implementation of the energy audit methodology	<b>Results Indicator #5:</b>	US\$ 0 million (2020)	US\$ 38 million (2025)



Prior actions for DPL 1 and DPL2		Results		
Systematization (Rulebook No. 110-00-00085/2021-08, dated October 7, 2021) to enable the Energy Efficiency Administration to scale up programs for residential clean energy, as evidenced by the Government Decision 05 No. 110-10364/2021, dated November 10, 2021.	as evidenced by the Rulebook prescribing the content of the energy audit report according to the categories of the energy audit, published in Borrower’s Official Gazette No. 63/2023, dated July 28, 2023; (b) defined the legal framework for eco-design of various energy-related products in order to promote energy efficiency related activities, as evidenced by adopted Set of Rulebooks on the Product Eco-design published in Borrower’s Official Gazette.	Financing mobilized per year for investment in residential energy efficiency by the programs of the MoME.		
<b>Prior Action #6:</b> The Borrower, pursuant to the Energy Law and in order to promote transparent, and non-discriminatory access to the distribution grid for renewable energy prosumers and electricity retail service providers, has separated the Borrower-owned distribution system operator (“EPS Distribucija Ltd. Belgrade”) from the Borrower-owned power company (“PE Elektroprivreda Srbije”), by establishing and licensing a separate, and independent Borrower-owned legal entity (“Elektrodistribucija Srbije Ltd. Belgrade”), as evidenced by the Consolidated text of the Decision on the Incorporation of the “Elektrodistribucija Srbije Ltd. Belgrade”, No. 2460800-08.01-183456/1-22, dated April 28, 2022, notarized under certification No. UOP-T 12-2022, dated July 7, 2022.	<p><b>Prior Action #5 (i):</b> The Borrower has approved the transformation of the legal form of the power company “Elektroprivreda Srbije” from a public enterprise into a joint-stock company, as evidenced by Government Decision 05 No.023-3090/2023, dated April 6, 2023, published in Borrower’s Official Gazette No. 27/2023, dated April 7, 2023.</p> <p><b>Prior Action #5 (ii):</b> The Ministry of Environmental Protection issued first <b>GHG emissions</b> permits to the <b>thermal power, cogeneration and heating</b> plants of the “Elektroprivreda Srbije” JSC, based on previously approved GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions of “Elektroprivreda Srbije” JSC, pursuant to the provisions of the Law</p>	<p><b>Results Indicator #6:</b></p> <p>a) The distribution system operator is fully unbundled from generation and supply activities.</p> <p>b) Percent of power plant output with approved carbon emissions monitoring system.</p>	a) No (2021)	a) Yes (2025)
			b) 0 (2021)	b) 95% (2025)



Prior actions for DPL 1 and DPL2		Results		
	on Climate Change, as evidenced by the public list of issued permit, published by the MoEP.			
<b>Prior Action #7</b> The Borrower: i) has expanded the benefits coverage for energy-vulnerable customers, as evidenced by the Decree on Energy Vulnerable Customers (Decree 05 No. 110-9890/2022-1), duly published in the Borrower’s Official Gazette No. 137/2022, dated December 9, 2022; and (ii) through its Council of the Energy Agency, has approved an increase of the electricity tariff for guaranteed supply to achieve sustainable tariff levels over the medium term, as evidenced by (a) Council of the Energy Agency of the Republic of Serbia Decision No. 487/2022-D-02/1, dated July 28, 2022, duly published in the Borrower’s Official Gazette No. 83/2022, dated July 28, 2022; and (b) Decision No. 791/2022-D-02/1, dated November 28, 2022, duly published in the Borrower’s Official Gazette No. 131/2022, dated November 29, 2022.		<b>Results Indicator #7:<sup>28</sup></b> (a) Share of households receiving rebates to their energy bills under the protection program for Energy Vulnerable Customers.  (b) Percent increase in the average electricity price for customers entitled to a guaranteed supply at regulated prices (households and small-scale customers).	a) 2.7% (2021)  b) 3.4% (2021)	a) 6.4% (2025)  b) 15% (2025)
<b><i>Pillar III – Program Development Objective C: Strengthen the legal framework for GHG mitigation and pollution management</i></b>				
<b>Prior Action #8:</b> The Borrower has introduced a Monitoring Reporting and Verification system for industrial installations to align with the EU’s	<b>Prior Action #6:</b> The Borrower has created a legal and institutional environment to strengthen the economywide monitoring and reporting of GHG	<b>Results Indicator #8:</b> a) Percentage of GHG permits issued relative to the number	a) 0% (2020)	a) 40% (2025)

<sup>28</sup> This RI captures the results from Prior Action #7 under DPL1 and relevant follow-up actions by the government.



Prior actions for DPL 1 and DPL2		Results		
<p>Emission Trading System, as evidenced by the adoption of (i) Decree on types of activities and greenhouse gases which require an emissions permit (Decree 05 No. 110-817/2022), duly published in the Borrower’s Official Gazette No. 13/2022, dated February 4, 2022; and (ii) Rulebook on verification and accreditation of verifiers of greenhouse gases emissions reports (Rulebook No. 110-00-00057/2021-04), duly published in the Borrower’s Official Gazette No. 107/2021, dated November 12, 2021.</p>	<p>emissions, as evidenced by: 1) the Rulebook on the content of the GHG inventory, published in Borrower’s Official Gazette No. 55/2023 on July 7, 2023; 2) the Decree types of data, bodies and organizations that submit data, published in Borrower’s Official Gazette No. 43/2023, dated May 5, 2023; 3) the Rulebook on Monitoring and Reporting of GHG emissions that enabled the operationalization of a national MRV IT platform as well as the GHG permitting system (published in Borrower’s Official Gazette 118/2023, dated December 28, 2023); and 4) the adoption and publication of the first National Inventory of GHG emissions, as evidenced by the Government Decision 05 No. 353-11715/2024-2, dated December 5, 2024.</p>	<p>of submitted applications from operators.</p> <p>b) Establishment of GHG permitting IT tool.</p> <p>c) Number of capacity building trainings for operators of stationary installations and for competent authority.</p>	<p>b) No (2020)</p> <p>c) 0 (2020)</p>	<p>b) Yes (2025)</p> <p>c) 7 (2025)</p>
<p><b>Prior Action #9:</b> The Borrower has aligned national policy and legislation with the EU Waste Framework Directive, as evidenced by the (i) adoption of the National Waste Management Program and Action Plan through Government Decision 05 No. 353-588/2022-1, duly published in the Borrower’s Official Gazette No. 12/2022, dated February 1, 2022, and (ii) submission to the Parliament of the Amendment to the Law on Waste Management, through Government notice 05 No. 011-10810/2022-2, dated December 30, 2022.</p>	<p><b>Prior Action #7 (i):</b> The Borrower has developed a strategic and legislative framework for sludge management in order to align with the EU sludge legislation, as evidenced by: 1) the National Sludge Management Program and Action Plan, published in the Borrower’s Official Gazette No. 84/2023, dated October 5, 2023, and 2) the Decree on Sewage Sludge Management, published in Borrower’s Official Gazette No. 103/2023, November 21, 2023.</p>	<p><b>Results Indicator #9:</b></p> <p>a) Accessibility of the population to sanitary landfills in the Republic of Serbia.</p> <p>b) Number of unsanitary landfills under remediation.</p> <p>c) Multiple management/disposal options for sewage sludge created in Serbian strategic and legal framework.</p>	<p>a) 42% (2021)</p> <p>b) 0 (2020)</p> <p>c) No (2020)</p>	<p>a) 55% (2025)</p> <p>b) 4 (2025)</p> <p>c) Yes (2025)</p>



Prior actions for DPL 1 and DPL2		Results		
	<p><b>Prior Action #7 (ii):</b> The Borrower has adopted legislation needed for environmentally sound management and increased reuse and recycling rates of the construction waste by adopting the Decree on management of construction and demolition waste, published in Borrower’s Official Gazette No. 93/2023, dated October 27, 2023, as corrected pursuant to the corrigendum published in Borrower’s Official Gazette No. 94/2023, dated October 30, 2023.</p>			
<p><b>Prior Action #10:</b> The Borrower has aligned national policy and legislation with the EU National Emissions Ceiling Directive and the Air Quality Framework Directive, as evidenced by adoption of the Air Protection Program in the Republic of Serbia for the period from 2022 to 2030 with an Action Plan, including specific interventions to address emissions from medium combustion plants, duly published in the Borrower’s Official Gazette No. 140, dated December 22, 2022.</p>	<p><b>Prior Action #8:</b> The borrower has enabled issuance of emission permits through the new online portal by adopting: 1) the Rulebook on the application for an integrated pollution prevention and control permit, as published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024; and 2) the Rulebook on the format and content of the application for integrated permit, published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024.</p>	<p><b>Results Indicator #10:</b>  a) Share of medium combustion plants (MCPs) with a thermal power from 1 to 50 MW out of the total number of MCPs registered in the National Register of Pollution Sources database.   b) Number of integrated permits issued.</p>	<p>a) 0 (2020)</p> <p>b) 36 (2020)</p>	<p>a) 35% (2025)</p> <p>b) 55 (2025)</p>



ANNEX 2. Paris Alignment Assessment

Program Development Objective(s):	
<p><b>Step 1: Taking into account the climate analysis undertaken, is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?</b></p>	<p><b>Answer:</b> Yes  <b>Explanation:</b> The objective of the programmatic Green Transition Development Policy Loan is to support the Government of Serbia’s efforts to: 1) align fiscal management with the climate-change goals, 2) strengthen the legal framework for GHG mitigation and pollution management. The related PAs are either directly contributing to the decarbonization of Serbia’s economy through reducing GHG emissions, to decreasing vulnerability to observed and anticipated climate change impacts, or they have no negative impacts on any of them.</p>
<p><b>Mitigation goals: assessing and reducing the risks</b></p>	
<p><b>Prior Action #1: The Borrower has increased transparency in budgetary process by: (i) introduction of tagging of “green” budget expenditures in order to make more transparent information on spending on environment and climate-related activities by enacting amendments to the Budget System Law, Article 35, related to budgetary instructions and Article 79 related to the content of the final account, as evidenced by amendments to the Budget System Law, published in the Official Gazette No. 94/2024, dated November 28, 2024, and (ii) adoption of the annual plan for expansion of the coverage of budget beneficiaries with gender responsive budget, as evidenced by the Plan for introduction of the gender responsive budget in 2025, adopted by the Ministry of Finance on March 29, 2024.</b></p>	
<p><b>Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?</b></p>	<p><b>Answer:</b> No  <b>Explanation:</b> The reform under this PA will lead to the prioritization of climate action and allocation of funding for environmentally sustainable and climate-informed projects, thereby promoting a transition to a low-carbon economy. As such, it will have positive impact on Serbia’s GHG emissions and it will further facilitate achievement of its mitigation targets.</p>
<p><b>Conclusion for PA#1:</b> The PA#1 is aligned with the mitigation goals of the Paris Agreement.</p>	
<p><b>Prior Action #2: The Borrower has introduced analysis and estimates of the possible fiscal impact of disasters-related events as the mandatory section of the Fiscal Strategy in order to include that information when assessing the medium-term fiscal framework starting with the 2026 Fiscal Strategy, by amending the Budget System Law article 27 related to the content of the Fiscal Strategy, as evidenced by amendments to the Budget System Law, 2024, published in the Official Gazette No. 94/2024, dated November 28, 2024.</b></p>	
<p><b>Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?</b></p>	<p><b>Answer:</b> No  <b>Explanation:</b> The reform under this PA will have no negative impact on Serbia’s GHG emissions or low-carbon development strategy. On the contrary, by incorporating fiscal risks from natural disasters into the Fiscal Strategy, it can indirectly support climate change mitigation by incentivizing investments in sustainable infrastructure</p>



	and disaster-resilient technologies that also reduce greenhouse gas emissions.
<b>Conclusion for PA#2:</b> The PA#2 is aligned with the mitigation goals of the Paris Agreement.	
<p><b>Prior Action #3 (i):</b> The Borrower has updated the regulatory framework for the implementation of the second auctions for renewable energy capacities, based on the amended Law on the Use of Renewable Energy Sources, published in the Borrower’s Official Gazette No. 35/2023, dated April 29, 2023, in order to increase renewable energy generation capacities, as evidenced by: 1) Decree on the Quota in the Market Premium System for Wind Farms, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 2) Decree on the Quota in the Market Premium System for Solar Power Plants, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 3) Decision on the Maximum Offered Price for Electricity for the Needs of Auctions in the Market Premium System, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; and 4) Amendments to the Decree on market premium and feed in tariff published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024.</p> <p><b>Prior Action #3 (ii):</b> The Borrower has mandated the Ministry of Mining and Energy to formulate the hydrogen development and usage program in order to decrease GHG emissions in line with the EU Acquis, as evidenced by the amendments to the Energy Law, published in the Official Gazette of the RS No. 94/2024, dated November 28, 2024.</p>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> The reforms under this PA will have no negative impacts on GHG emissions in Serbia. On the contrary, the updated regulatory framework for renewable energy auctions and the mandate to develop a hydrogen program are expected to drive significant climate change mitigation by accelerating the deployment of renewable energy capacities, reducing reliance on fossil fuels, and fostering innovation in low-carbon energy technologies like green hydrogen.</p>
<b>Conclusion for PA#3:</b> The PA#3 is aligned with the mitigation goals of the Paris Agreement.	
<p><b>Prior Action #4:</b> The Borrower has: (a) enabled implementation of the energy audit methodology as evidenced by the Rulebook prescribing the content of the energy audit report according to the categories of the energy audit, published in Borrower’s Official Gazette No. 63/2023, dated July 28, 2023; (b) defined the legal framework for eco-design of various energy-related products in order to promote energy efficiency related activities, as evidenced by adopted Set of Rulebooks on the Product Eco-design published in Borrower’s Official Gazette.</p>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> This reform under this PA will contribute to a comprehensive approach to cutting emissions from the energy sector, thereby advancing Serbia's climate goals and low-carbon transition. On one hand, the methodology for energy audits supports the identification of cost-effective improvements, leading to reduced GHG emissions. On the other hand, the legal framework for eco-design of products will further mitigate emissions by ensuring that products are designed for greater energy efficiency and reduced environmental impact throughout their lifecycle.</p>
<b>Conclusion for PA#4:</b> The PA#4 is aligned with the mitigation goals of the Paris Agreement.	



**Prior Action #5 (i):** The Borrower has approved the transformation of the legal form of the power company “Elektroprivreda Srbije” from a public enterprise into a joint-stock company, as evidenced by Government Decision 05 No.023-3090/2023, dated April 6, 2023, published in Borrower’s Official Gazette No. 27/2023, dated April 7, 2023.

**Prior Action #5 (ii):** The Borrower through its Ministry of Environmental Protection has issued first GHG emissions permits to the thermal power, cogeneration and heating plants of the “Elektroprivreda Srbije” JSC, based on previously approved GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions of “Elektroprivreda Srbije” JSC, pursuant to the provisions of the Law on Climate Change, as evidenced by the public list of issued permit, published by the Ministry of Environmental Protection.

<p><b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?</p>	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> This first part of the reform is not expected to lead to a significant increase in GHG emissions. The second part of the reform (the permits issued to measure and report on GHG emissions) will o the other hand positively impact Serbia's green energy transition by providing reliable data to identify and reduce emissions in selected power plants by enabling targeted interventions to improve efficiency and adopt cleaner technologies.</p>
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**Conclusion for PA#5:** The PA#5 is aligned with the mitigation goals of the Paris Agreement.

**Prior Action #6:** The Borrower has created a legal and institutional environment to strengthen the economywide monitoring and reporting of GHG emissions, as evidenced by: 1) the Rulebook on the content of the GHG inventory, published in Borrower’s Official Gazette No. 55/2023 on July 7, 2023; 2) the Decree types of data, bodies and organizations that submit data, published in Borrower’s Official Gazette No. 43/2023, dated May 5, 2023; 3) the Rulebook on Monitoring and Reporting of GHG emissions that enabled the operationalization of a national MRV IT platform as well as the GHG permitting system (published in Borrower’s Official Gazette No. 118/2023, dated December 28, 2023); and 4) the adoption and publication of the first National Inventory of GHG emissions, as evidenced by the Government Decision 05 No. 353-11715/2024-2, dated December 5, 2024.

<p><b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?</p>	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> The reforms under this PA (including the adoption of bylaws and publication of the first GHG inventory in Serbia) enhance the country’s ability to track and reduce greenhouse gas emissions accurately and improve transparency and accountability of the system. As such, the reforms are directly supporting effective climate change mitigation and green transition transformation.</p>
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**Conclusion for PA 6:** The PA6 is aligned with the mitigation goals of the Paris Agreement.

**Prior Action #7 (i):** The Borrower has developed a strategic and legislative framework for sludge management in order to align with the EU sludge legislation, as evidenced by: 1) the National Sludge Management Program and Action Plan, published in the Borrower’s Official Gazette No. 84/2023, dated October 5, 2023, and 2) the Decree on Sewage Sludge Management, published in Borrower’s Official Gazette No. 103/2023, November 21, 2023.

**Prior Action #7 (ii):** The Borrower has adopted legislation needed for environmentally sound management and increased reuse and recycling rates of the construction waste by adopting the Decree on management of construction and demolition waste, published in Borrower’s Official Gazette No. 93/2023, dated October 27, 2023, as corrected pursuant to the corrigendum published in Borrower’s Official Gazette No. 94/2023, dated October 30, 2023.

<p><b>Step M2.1:</b> Is the prior action likely to cause a</p>	<p><b>Answer:</b> No</p>
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<p><b>significant increase in GHG emissions?</b></p>	<p><b>Explanation:</b> The reforms under this PA (specifically improved regulations on sludge management and CDW) are considered critical for climate change mitigation and Serbia’s low-carbon transition. The National Sludge Management Program and Action Plan provide enabling environment for reducing methane emissions for promoting the use of treated sludge (including for agriculture) in the context of a circular economy. Likewise, the CDW regulations encourage recycling and reuse of construction materials, minimize landfill waste and its associated GHG emissions, and promote resource efficiency in the construction sector.</p>
<p><b>Conclusion for PA#7:</b> The PA#7 is aligned with the mitigation goals of the Paris Agreement.</p>	
<p><b>Prior Action #8:</b> The borrower has enabled issuance of emission permits through the new online portal by adopting: 1) the Rulebook on the application for an integrated pollution prevention and control permit, as published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024; and 2) the Rulebook on the format and content of the application for integrated permit, published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024.</p>	
<p><b>Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?</b></p>	<p><b>Answer:</b> No  <b>Explanation:</b> The objectives of the reforms under this PA are to improve air quality in Serbia and they will not lead to an increase in GHG emissions. In fact, considering that air pollution and climate change in Serbia are intertwined (both in terms of GHG emissions/PM sources as well as impacts of targeted measures), efforts to improve air quality will therefore also support climate change mitigation.</p>
<p><b>Conclusion for PA#8:</b> The PA#8 is aligned with the mitigation goals of the Paris Agreement.</p>	
<p><b>Mitigation:</b> All PAs in the DPF are aligned with the mitigation goals of the Paris Agreement.</p>	
<p><b>Adaptation and resilience goals: assessing and managing the risks</b></p>	
<p><b>Prior Action #1:</b> The Borrower has increased transparency in budgetary process by: (i) introduction of tagging of “green” budget expenditures in order to make more transparent information on spending on environment and climate-related activities by enacting amendments to the Budget System Law, Article 35, related to budgetary instructions and Article 79 related to the content of the final account, as evidenced by amendments to the Budget System Law, published in the Official Gazette No. 94/2024, dated November 28, 2024, and (ii) adoption of the annual plan for expansion of the coverage of budget beneficiaries with gender responsive budget, as evidenced by the Plan for introduction of the gender responsive budget in 2025, adopted by the Ministry of Finance on March 29, 2024.</p>	
<p><b>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</b></p>	<p><b>Answer:</b> No  <b>Explanation:</b> The reform under this PA will lead to the prioritization of climate action and allocation of funding for environmentally sustainable and climate-informed projects, thereby promoting climate resilient development. As such, it will have positive impacts in terms of reducing observed and anticipated climate</p>



	vulnerabilities and enhancing the country’s adaptive capacity to address them.
<b>Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</b>	<b>N/A</b>
<b>Conclusion for PA#1:</b> The PA#1 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #2: The Borrower has introduced analysis and estimates of the possible fiscal impact of disasters-related events as the mandatory section of the Fiscal Strategy in order to include that information when assessing the medium-term fiscal framework starting with the 2026 Fiscal Strategy, by amending the Budget System Law article 27 related to the content of the Fiscal Strategy, as evidenced by amendments to the Budget System Law, published in the Official Gazette No. 94/2024, dated November 28, 2024.</b>	
<b>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</b>	<b>Answer: No</b> <b>Explanation:</b> By including fiscal risks from natural disasters in Serbia's Fiscal Strategy, the reform under this PA directly reduces climate vulnerabilities and hazards by promoting proactive planning, prioritizing investments in climate resilient infrastructure and systems, and ensuring sufficient financial resources for recovery and long-term adaptation measures.
<b>Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</b>	<b>N/A</b>
<b>Conclusion for PA#2:</b> The PA#2 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #3 (i): The Borrower has updated the regulatory framework for the implementation of the second auctions for renewable energy capacities, based on the amended Law on the Use of Renewable Energy Sources, published in the Borrower’s Official Gazette No. 35/2023, dated April 29, 2023, in order to increase renewable energy generation capacities, as evidenced by: 1) Decree on the Quota in the Market Premium System for Wind Farms, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 2) Decree on the Quota in the Market Premium System for Solar Power Plants, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 3) Decision on the Maximum Offered Price for Electricity for the Needs of Auctions in the Market Premium System, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; and 4) Amendments to the Decree on market premium and feed in tariff published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024.</b>	
<b>Prior Action #3 (ii): The Borrower has mandated the Ministry of Mining and Energy to formulate the hydrogen development and usage program in order to decrease GHG emissions in line with the EU Acquis, as evidenced by the amendments to the Energy Law, published in the Official Gazette of the RS No. 94/2024, dated November 28, 2024.</b>	
<b>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</b>	<b>Answer: No</b> <b>Explanation:</b> Climate risks and hazards are not expected to impact the achievement of the reforms under this PA.
<b>Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</b>	<b>N/A</b>



<b>Conclusion for PA#3:</b> The PA#3 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #4:</b> The Borrower has: (a) enabled implementation of the energy audit methodology as evidenced by the Rulebook prescribing the content of the energy audit report according to the categories of the energy audit, published in Borrower’s Official Gazette No. 63/2023, dated July 28, 2023; (b) defined the legal framework for eco-design of various energy-related products in order to promote energy efficiency related activities, as evidenced by adopted Set of Rulebooks on the Product Eco-design published in Borrower’s Official Gazette.	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> The reforms under this PA are not impacted by observed and anticipated climate change risks since these reforms focus on improving energy use and product design. In fact, by promoting more efficient energy consumption and sustainable products use, these measures provide long-term benefits that are resilient to climate variability and related hazards.
<b>Step A3:</b> Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	N/A
<b>Conclusion for PA#4:</b> The PA#4 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #5 (i):</b> The Borrower has approved the transformation of the legal form of the power company “Elektroprivreda Srbije” from a public enterprise into a joint-stock company, as evidenced by Government Decision 05 No.023-3090/2023, dated April 6, 2023, published in Borrower’s Official Gazette No. 27/2023, dated April 7, 2023. <b>Prior Action #5 (ii):</b> The Borrower through its Ministry of Environmental Protection has issued first GHG emissions permits to the thermal power, cogeneration and heating plants of the “Elektroprivreda Srbije” JSC, based on previously approved GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions of “Elektroprivreda Srbije” JSC, pursuant to the provisions of the Law on Climate Change, as evidenced by the public list of issued permit, published by the Ministry of Environmental Protection.	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<b>Answer:</b> No <b>Explanation:</b> Considering that the reform focuses on the organizational change of the power company and improvements in measuring and monitoring of GHG emissions (which are both a technical and administrative processes), it is not impacted by observed and anticipated climate change risks the country and sector is facing.
<b>Step A3:</b> Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	N/A
<b>Conclusion for PA#5:</b> The PA#5 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #6:</b> The Borrower has created a legal and institutional environment to strengthen the economywide monitoring and reporting of GHG emissions, as evidenced by: 1) the Rulebook on the content of the GHG inventory, published in Borrower’s Official Gazette No. 55/2023 on July 7, 2023; 2) the Decree types of data, bodies and organizations that submit data, published in Borrower’s Official Gazette No. 43/2023, dated May 5, 2023; 3) the Rulebook on Monitoring and Reporting of GHG emissions that enabled the operationalization of a national MRV IT platform as well as the GHG permitting system (published in Borrower’s Official Gazette No. 118/2023, dated	



<b>December 28, 2023); and 4) the adoption and publication of the first National Inventory of GHG emissions, as evidenced by the Government Decision 05 No. 353-11715/2024-2, dated December 5, 2024.</b>	
<b>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</b>	<b>Answer:</b> No <b>Explanation:</b> The reforms under this PA are not directly impacted by climate hazards because they primarily define regulatory frameworks, institutional arrangements, and data collection protocols. However, while extreme weather events or climate hazards may disrupt data collection temporarily in rare cases, the bylaws and rulebooks themselves remain robust and applicable, ensuring continuity in reporting and verification processes regardless of observed and anticipated climate hazards.
<b>Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</b>	<b>N/A</b>
<b>Conclusion for PA#6:</b> The PA#6 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #7 (i):</b> The Borrower has developed a strategic and legislative framework for sludge management in order to align with the EU sludge legislation, as evidenced by: 1) the National Sludge Management Program and Action Plan, published in the Borrower’s Official Gazette No. 84/2023, dated October 5, 2023, and 2) the Decree on Sewage Sludge Management, published in Borrower’s Official Gazette No. 103/2023, November 21, 2023. <b>Prior Action #7 (ii):</b> The Borrower has adopted legislation needed for environmentally sound management and increased reuse and recycling rates of the construction waste by adopting the Decree on management of construction and demolition waste, published in Borrower’s Official Gazette No. 93/2023, dated October 27, 2023, as corrected pursuant to the corrigendum published in Borrower’s Official Gazette No. 94/2023, dated October 30, 2023.	
<b>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</b>	<b>Answer:</b> Yes <b>Explanation:</b> Observed and anticipated climate risks, such as increased flooding or extreme weather events, could disrupt sludge management systems in Serbia. Likewise, the management of CDW could be impacted by the extreme weather events due to possible infrastructure damages and difficulties in safe disposal or recycling during related emergencies.
<b>Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</b>	<b>Answer:</b> Yes <b>Explanation:</b> The reforms under this PA (specifically improved sludge management and CDW regulations) focus on establishing frameworks, processes, and standards in line with the EU standards. The sludge management reforms under this PA emphasize the importance of adaptive infrastructure, such as flood-resistant treatment facilities. Likewise, the updated CDW regulations include provisions for disaster waste management, encouraging recycling and safe disposal methods that can respond effectively to climate-induced emergencies. As such, these reforms ensure that waste



	management systems remain robust and functional in the wake of observed and anticipated climate risks.
<b>Conclusion for PA#7:</b> The PA#7 is aligned with the adaptation goals of the Paris Agreement.	
<b>Prior Action #8: The borrower has enabled issuance of emission permits through the new online portal by adopting: 1) the Rulebook on the application for an integrated pollution prevention and control permit, as published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024; and 2) the Rulebook on the format and content of the application for integrated permit, published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024.</b>	
<b>Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</b>	<b>Answer:</b> No <b>Explanation:</b> The reforms under this PA (namely, the application of an integrated pollution prevention and control permit) are not significantly impacted by climate change risks, since they are regulatory tools focused on monitoring and managing air quality and GHG emissions.
<b>Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?</b>	<b>N/A</b>
<b>Conclusion for PA#8:</b> The PA#8 is aligned with the adaptation goals of the Paris Agreement.	
<b>Adaptation and resilience:</b> All PAs in the DPL are aligned with the resilience goals of the Paris Agreement.	
<b>OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT:</b> The DPL is fully aligned with and supporting the mitigation and resilience goals of the Paris Alignment.	



**ANNEX 3. Matrix of Key Changes to Original Policy Matrix**

DPL1 Pillars and Prior Actions	Original Pillars, Indicative Triggers, and Indicators	Updated DPF Results Framework	Comments
<p><i>Pillar I - Program Development Objective A: Better align fiscal management with the climate-change agenda</i></p>	<p><i>Pillar I - Program Development Objective A: Better align fiscal management with the climate-change agenda</i></p>	<p><i>Pillar I - Program Development Objective A: Align fiscal management with the climate-change goals</i></p>	<p><u>No substantive change.</u></p>
<p><b>Prior Action #1:</b> The Borrower has introduced the legal obligation to publish in-year budget execution information (covering the first six and nine months of budget execution), with functional and administrative breakdowns as in the original budget, to increase transparency in budgetary expenditures, including on environment and climate related activities, as evidenced by amendments to the Budget System Law, duly published in the Borrower’s Official Gazette No. 138, on December 12, 2022.</p>	<p><b>Indicative Trigger #1:</b> The Borrower introduced budget tagging of “green” expenditures by enacting amendments to the Budget System Law, Article 35, related to budgetary instructions, to add as part of annual budgetary instructions the new methodology for classification of climate change and environment protection expenditures, and Article 79 related to the content of the final account, to introduce reporting of green expenditures.</p>	<p><b>Prior Action #1:</b> The Borrower has increased transparency in budgetary process by: (i) introduction of tagging of “green” budget expenditures in order to make more transparent information on spending on environment and climate-related activities by enacting amendments to the Budget System Law, Article 35, related to budgetary instructions and Article 79 related to the content of the final account, as evidenced by amendments to the Budget System Law, published in the Official Gazette No. 94/2024, dated November 28, 2024, and (ii) adoption of the annual plan for expansion of the coverage of budget beneficiaries with gender responsive budget, as evidenced by the Plan for introduction of the gender responsive budget in 2025, adopted by the Ministry of Finance on March 29, 2024.</p>	<p><u>Strengthened.</u> The PA captures the overall improvement of the budgetary process by adding the progress with gender responsive budgeting.</p>
	<p><b>RI #1:</b> In-year reports on central government’s budget execution published  <b>Baseline:</b> No (2022)  <b>Target:</b> Yes, two in-year reports (2023)</p>	<p><b>RI #1:</b>  a) In-year reports on central government’s budget execution published.  b) Number of budgetary beneficiaries which include budget program indicators on gender expenditures.</p>	<p><u>Strengthened.</u>  a) The target year was changed from 2023 to 2025 because of the early elections and formation of the new government in May 2024.  b) This RI was added to measure the gender aspect of this reform.</p>



		<b>Baseline:</b> a) No (2022) b) 64 (2022) <b>Target:</b> a) Yes, two in-year reports (2025) b) 105 (2025)	
<b>Prior Action #2:</b> The Borrower, pursuant to the Methodology for Fiscal Risk Monitoring, developed fiscal risk models to quantify fiscal risks over the medium-term, as included in the Fiscal Strategy, and introduced the obligation to produce in-year and annual fiscal risk reports, as evidenced by Government Decision 05 No. 40-9575/2021, duly published in the Borrower’s Official Gazette No. 99, dated October 22, 2021.	<b>Indicative Trigger #2:</b> The Borrower has introduced analysis and estimates of the possible fiscal impact of disasters-related events based on fiscal risks models and methodology starting with the 2024 Fiscal Strategy, based on amendments to the Budget System Law related to the content of the Fiscal Strategy.	<b>Prior Action #2:</b> The Borrower has introduced analysis and estimates of the possible fiscal impact of disasters-related events as the mandatory section of the Fiscal Strategy in order to include that information when assessing the medium-term fiscal framework starting with the 2026 Fiscal Strategy, by amending the Budget System Law article 27 related to the content of the Fiscal Strategy, as evidenced by amendments to the Budget System Law, published in the Official Gazette No. 94/2024, dated November 28, 2024.	<u>No substantial change.</u> The commencing date of implementation was shifted from 2024 to 2026 because of the early elections and formation of the new government in May 2024.
	<b>RI #2:</b> The borrower started publishing the assessments of fiscal risks related to natural disasters in the Fiscal Strategy <b>Baseline:</b> No (2022) <b>Target:</b> Yes (2024)	<b>RI #2:</b> The borrower started publishing the assessments of fiscal risks related to natural disasters in the Fiscal Strategy. <b>Baseline:</b> No (2022) <b>Target:</b> Yes (2025)	<u>No substantial change.</u> The target year was changed from 2024 to 2025 because of the early elections and formation of the new government which happened only in May 2024.
<b>Prior Action #3:</b> The Borrower has introduced additional environmental and climate-related criteria to evaluate public investment projects, submitted by Budget Beneficiaries to the MoF for financing from the Government’s budget, and prioritize those public investment projects with positive impact on the environment and climate change, as evidenced by the amendments to the Decree on Management of Capital	<b>Indicative Trigger 3:</b> The Borrower has developed a regulatory framework to measure the climate co-benefits of approved public investment projects in line with commitments under the Low-Carbon Development Strategy and the National Climate Change Adaptation Program.	Dropped.	<u>Will not be completed within the lifespan of the DPL Series.</u> Technical work on the development of a regulatory framework for the measurement of climate co-benefits in public investment projects has advanced. However, the government requested that the prior action be dropped from the DPL to allow for more time to pilot test and refine the methodology, before it is added formally into the PIM legal framework.



<p>Projects, duly published in the Borrower’s Official Gazette No. 139, dated December 16, 2022.</p>			
	<p><b>RI #3:</b> Share of environment and climate change related projects in total capital budget <b>Baseline:</b> N.A. (2021) <b>Target:</b> 15% (2024)</p>	<p><b>RI #3:</b> Share of environment and climate change related projects in total capital budget. <b>Baseline:</b> N.A. (2021) <b>Target:</b> 17% (2025)</p>	<p><u>No change.</u></p>
<p><b>Pillar II – Program Development Objective B: Accelerate the clean energy transition</b></p>	<p><b>Pillar II – Program Development Objective B: Accelerate the clean energy transition</b></p>	<p><b>Pillar II – Program Development Objective B: Accelerate the clean energy transition</b></p>	<p><u>No change.</u></p>
<p><b>Prior Action #4:</b> The Borrower, pursuant to the Law on the Use of Renewable Energy Sources, has (i) enabled implementation of auctions for renewable energy capacity, as evidenced by (a) the Decree on market premium model agreement (Decree 05 No. 110-9353/2021-1), and (b) the Decree on market premiums and feed-in tariff (Decree 05 No. 110-9352/2021-1), both duly published in the Borrower’s Official Gazette No. 112/2021, dated November 26, 2021; and (ii) introduced a simplified registration procedure for prosumers, as evidenced by the Decree on the criteria, conditions, and manner of calculating mutual financial claims between self-consumers and suppliers (Decree 5 No. 110-7592/2021-2) duly published in the Borrower’s Official Gazette No. 83, dated August 27, 2021.</p>	<p><b>Indicative Trigger #4 (i):</b> The Borrower has updated the regulatory framework for implementation of auctions for renewable energy capacity, as evidenced by (a) the Decree which regulates balance responsibility for renewable energy producers, and (b) the Three-year plan for auctions for renewable energy capacity.</p> <p><b>Indicative Trigger #4 (ii):</b> The Borrower has developed the policy framework with regard to green hydrogen.</p>	<p><b>Prior Action #3 (i):</b> The Borrower has updated the regulatory framework for the implementation of the second auctions for renewable energy capacities, based on the amended Law on the Use of Renewable Energy Sources, published in the Borrower’s Official Gazette No. 35/2023, dated April 29, 2023, in order to increase renewable energy generation capacities, as evidenced by: 1) Decree on the Quota in the Market Premium System for Wind Farms, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 2) Decree on the Quota in the Market Premium System for Solar Power Plants, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; 3) Decision on the Maximum Offered Price for Electricity for the Needs of Auctions in the Market Premium System, published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024; and 4) Amendments to the Decree on market premium and</p>	<p><u>Strengthened/more accurate PA.</u> The first part of the prior action now captures further steps related to the improvement of regulations governing renewables auctions.</p> <p>The second part of the prior actions captures more accurately the choice of public policy instrument to support this reform on hydrogen.</p>



		<p>feed in tariff published in Borrower’s Official Gazette No. 90/2024, dated November 15, 2024.</p> <p><b>Prior Action #3 (ii):</b> The Borrower has mandated the Ministry of Mining and Energy to formulate the hydrogen development and usage program in order to decrease GHG emissions in line with the EU Acquis, as evidenced by the amendments to the Energy Law, adopted on November 27, 2024, published in the Official Gazette of the RS No. 94/2024, dated November 28, 2024.</p>	
	<p><b>RI #4:</b> MW of cumulative renewable energy capacity procured through auctions.  <b>Baseline:</b> 0 (2021)  <b>Target:</b> 400 MW (2024)</p>	<p><b>RI #4:</b>  a) Renewable energy capacity enabled with policy support  b) MW of cumulative renewable energy capacity procured through auctions.  <b>Baseline:</b>  a) 0 (2021)  b) 0 (2021)  <b>Target:</b>  a) 750 MW (2025)  b) 750 MW (2025)</p>	<p><u>No change</u> in the original RI and the Corporate Results Indication (RI#4 (a) was added.</p>
<p><b>Prior Action #5:</b> The Borrower has revised the Rulebook on Internal Organization and Job Systematization (Rulebook No. 110-00-00085/2021-08, dated October 7, 2021) to enable the Energy Efficiency Administration to scale up programs for residential clean energy, as evidenced by the Government Decision 05 No. 110-10364/2021, dated November 10, 2021.</p>	<p><b>Indicative Trigger #5 (i):</b> The Borrower has institutionalized a predictable and transparent multi-year funding mechanism for the EEA’s programs.</p> <p><b>Indicative Trigger #5 (ii):</b> The Borrower has adopted secondary legislation that enables licensing of energy auditors and the adoption of energy audit methodology for the entities defined by the Law on Energy Efficiency and</p>	<p><b>Prior Action #4:</b> The Borrower has: (a) enabled implementation of the energy audit methodology as evidenced by the Rulebook prescribing the content of the energy audit report according to the categories of the energy audit, published in Borrower’s Official Gazette No. 63/2023, dated July 28, 2023; (b) defined the legal framework for eco-design of various energy-related products in order to promote energy efficiency related activities,</p>	<p><u>Change of focus.</u> The first part of the IT#5 was replaced since there was no clear policy solution and/or consensus in the government how to design this reform. However, the new part of the PA was added to support new efforts of the government to regulate eco-design of various products.</p>



	Rational Use of Energy of 2021.	as evidenced by adopted Set of Rulebooks on the Product Eco-design published in Borrower’s Official Gazette.	
	<b>RI #5:</b> Financing mobilized per year for investment in residential energy efficiency by the programs of the MoME. <b>Baseline:</b> US\$ 0m (2020) <b>Target:</b> US\$ 25m (2024)	<b>RI #5:</b> Financing mobilized per year for investment in residential energy efficiency by the programs of the MoME. <b>Baseline:</b> US\$ 0m (2020) <b>Target:</b> US\$ 38m (2025)	<u>No change.</u>
<b>Prior Action #6:</b> The Borrower, pursuant to the Energy Law and in order to promote transparent, and non-discriminatory access to the distribution grid for renewable energy prosumers and electricity retail service providers, has separated the Borrower-owned distribution system operator (“EPS Distribucija Ltd. Belgrade”) from the Borrower-owned power company (“PE Elektroprivreda Srbije”), by establishing and licensing a separate, and independent Borrower-owned legal entity (“Elektrodistribucija Srbije Ltd. Belgrade”), as evidenced by the Consolidated text of the Decision on the Incorporation of the “Elektrodistribucija Srbije Ltd. Belgrade”, No. 2460800-08.01-183456/1-22, dated April 28, 2022, notarized under certification No. UOP-T 12-2022, dated July 7, 2022.	<b>Indicative Trigger #6 (i):</b> The Borrower has approved the transformation of the power company “PE Elektroprivreda Srbije” into a joint-stock company.  <b>Indicative Trigger #6 (ii):</b> The Borrower, through the power company “PE Elektroprivreda Srbije”, has developed GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions at key “PE Elektroprivreda Srbije” power plants and other energy facilities, pursuant to the provisions of the Law on Climate Change.	<b>Prior Action #5 (i):</b> The Borrower has approved the transformation of the legal form of the power company “Elektroprivreda Srbije” from a public enterprise into a joint-stock company, as evidenced by Government Decision 05 No.023-3090/2023, dated April 6, 2023, published in Borrower’s Official Gazette No. 27/2023, dated April 7, 2023.  <b>Prior Action #5 (ii):</b> The Borrower through its Ministry of Environmental Protection has issued first GHG emissions permits to the <u>thermal power, cogeneration and heating plants</u> of the “Elektroprivreda Srbije” JSC, based on previously approved GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions of “Elektroprivreda Srbije” JSC, pursuant to the provisions of the Law on Climate Change, as evidenced by the public list of issued permit, published by the Ministry of Environmental Protection.	<u>Strengthened PA.</u> The IT#6 (ii) was strengthened by adding the second part related to permits for GHG emission, which is the subsequent step in the originally envisaged reform (preparation of emissions monitoring plans).



	<p><b>RI #6:</b></p> <p>a) The distribution system operator is fully unbundled from generation and supply activities.</p> <p>b) Percent of power plant output with approved carbon emissions monitoring system.</p> <p><b>Baseline:</b></p> <p>a) No (2021)</p> <p>b) 0 (2021)</p> <p><b>Target:</b></p> <p>a) Yes (2024)</p> <p>b) 95% (2024)</p>	<p><b>RI #6:</b></p> <p>a) The distribution system operator is fully unbundled from generation and supply activities.</p> <p>b) Percent of power plant output with approved carbon emissions monitoring system.</p> <p><b>Baseline:</b></p> <p>a) No (2021)</p> <p>b) 0 (2021)</p> <p><b>Target:</b></p> <p>a) Yes (2025)</p> <p>b) 95% (2025)</p>	<p><u>No substantial change.</u> The target year was changed to 2025 to align with other RIs.</p>
<p><b>Prior Action #7:</b> The Borrower: i) has expanded the benefits coverage for energy-vulnerable customers, as evidenced by the Decree on Energy Vulnerable Customers (Decree 05 No. 110-9890/2022-1), duly published in the Borrower’s Official Gazette No. 137/2022, dated December 9, 2022; and (ii) through its Council of the Energy Agency, has approved an increase of the electricity tariff for guaranteed supply to achieve sustainable tariff levels over the medium term, as evidenced by (a) Council of the Energy Agency of the Republic of Serbia Decision No. 487/2022-D-02/1, dated July 28, 2022, duly published in the Borrower’s Official Gazette No. 83/2022, dated July 28, 2022; and (b) Decision No. 791/2022-D-02/1, dated November 28, 2022, duly published in the Borrower’s Official Gazette No. 131/2022, dated November 29, 2022.</p>	<p><b>Indicative Trigger #7 (i):</b> The Borrower has (a) adopted further improvements to secondary legislation on energy-vulnerable consumers; and (b) approved the commensurate budget for supporting the energy vulnerable customers.</p> <p><b>Indicative Trigger #7 (ii):</b> The Borrower through its Council of the Energy Agency has implemented the next phase of electricity tariff reform.</p>		<p><u>PA fully met.</u> To streamline the matrix of the DPO, this PA was dropped from the matrix while recognizing this important and continuous reform effort.</p>
	<p><b>RI #7:</b></p> <p>(a) Share of households receiving rebates to their energy bills under the</p>	<p><b>RI #7:</b></p> <p>(a) Share of households receiving rebates to their energy bills under the protection program for</p>	<p><u>No substantial change.</u> The target value for RI #7 (a) was defined based on the most updated data. For RI #7 (b) the change reflects the change in value for 2023 since there</p>



	<p>protection program for Energy Vulnerable.</p> <p>(b) Percent increase in the average electricity price for customers entitled to a guaranteed supply at regulated prices (households and small-scale customers).</p> <p><b>Baseline:</b> a) 2.7% (2021) b) 3.4% (2021)</p> <p><b>Target:</b> a) TBD% (2024) b) 15% +TBD% (2024)</p>	<p>Energy Vulnerable Customer.</p> <p>(b) Percent increase in the average electricity price for customers entitled to a guaranteed supply at regulated prices (households and small-scale customers).</p> <p><b>Baseline:</b> a) 2.7% (2021) b) 3.4% (2021)</p> <p><b>Target:</b> a) 6.4% (2025) b) 15% (2025)</p>	<p>were no further increases in electricity prices in 2024.</p>
<b>Pillar III – Program Development Objective C: Align with European Union standards on environment and climate action</b>	<b>Pillar III – Program Development Objective C: Align with European Union standards on environment and climate action</b>	<b>Pillar III – Program Development Objective C: Strengthen the legal framework for GHG mitigation and pollution management</b>	<u>Changed to better align with the set of reforms supported by this pillar.</u>
<b>Prior Action #8:</b> The Borrower has introduced a Monitoring Reporting and Verification system for industrial installations to align with the EU’s Emission Trading System, as evidenced by the adoption of (i) Decree on types of activities and greenhouse gases which require an emissions permit (Decree 05 No. 110-817/2022), duly published in the Borrower’s Official Gazette No. 13/2022, dated February 4, 2022; and (ii) Rulebook on verification and accreditation of verifiers of greenhouse gases emissions reports (Rulebook No. 110-00-00057/2021-04), duly published in the Borrower’s Official Gazette No. 107/2021, dated November 12, 2021.	<b>Indicative Trigger #8:</b> The Borrower has adopted additional bylaws on compilation of GHG inventory including the: i) the Rulebook on the content of GHG Inventory and Report on GHG Inventory ; and ii) the Regulation on types of data, bodies and organizations and other natural and legal persons that submit data for the preparation of the National Inventory of Greenhouse Gases, that will enable the operationalization of a national MRV IT platform as well as the GHG permitting system.	<b>Prior Action #6:</b> The Borrower has created a legal and institutional environment to strengthen the economywide monitoring and reporting of GHG emissions, as evidenced by: 1) the Rulebook on the content of the GHG inventory, published in Borrower’s Official Gazette No. 55/2023 on July 7, 2023; 2) the Decree types of data, bodies and organizations that submit data, published in Borrower’s Official Gazette No. 43/2023, dated May 5, 2023; 3) the Rulebook on Monitoring and Reporting of GHG emissions that enabled the operationalization of a national MRV IT platform as well as the GHG permitting system (published in Borrower’s Official Gazette No. 118/2023, dated December 28, 2023); and 4)	<u>No change.</u>



		the adoption and publication of the first National Inventory of GHG emissions, as evidenced by the Government Decision 05 No. 353-11715/2024-2, dated December 5, 2024.	
	<p><b>RI #8:</b></p> <p>a) Percentage of GHG permits issued relative to the number of submitted applications from operators;</p> <p>b) Establishment of GHG permitting IT tool;</p> <p>c) Number of capacity building trainings for operators of stationary installations and for competent authority.</p> <p><b>Baseline:</b></p> <p>a) 0% (2020)</p> <p>b) 0 (2020)</p> <p>c) 0 (2020)</p> <p><b>Target:</b></p> <p>a) 30% (2024)</p> <p>b) 1 (2024)</p> <p>c) 5 (2024)</p>	<p><b>RI #8:</b></p> <p>a) Percentage of GHG permits issued relative to the number of submitted applications from operators.</p> <p>b) Establishment of GHG permitting IT tool.</p> <p>c) Number of capacity building trainings for operators of stationary installations and for competent authority.</p> <p><b>Baseline:</b></p> <p>a) 0% (2020)</p> <p>b) No (2020)</p> <p>c) 0 (2020)</p> <p><b>Target:</b></p> <p>a) 40% (2025)</p> <p>b) Yes (2025)</p> <p>c) 7 (2025)</p>	<u>No substantial change.</u> Part b) of the Baseline was turned into a yes/no format.
<p><b>Prior Action #9:</b> The Borrower has aligned national policy and legislation with the EU Waste Framework Directive, as evidenced by the (i) adoption of the National Waste Management Program and Action Plan through Government Decision 05 No. 353-588/2022-1, duly published in the Borrower’s Official Gazette No. 12/2022, dated February 1, 2022, and (ii) submission to the Parliament of the Amendment to the Law on Waste Management, through Government notice 05 No. 011-10810/2022-2, dated December 30, 2022.</p>	<p><b>Indicative Trigger #9:</b> The Borrower has adopted the National Sludge Management Program and Action plan that would subsequently lead to adoption of the legislation/regulations in line with the relevant EU sludge legislation; and, the amendments to the Law on packaging and packaging waste with view to achieving the goals of reuse and recycling of packaging waste through introduction of the deposit system and other waste sector economic measures.</p>	<p><b>Prior Action #7 (i):</b> The Borrower has developed a strategic and legislative framework for sludge management in order to align with the EU sludge legislation, as evidenced by: 1) the National Sludge Management Program and Action Plan, published in the Borrower’s Official Gazette No. 84/2023, dated October 5, 2023, and 2) the Decree on Sewage Sludge Management, published in Borrower’s Official Gazette No. 103/2023, November 21, 2023.</p> <p><b>Prior Action #7 (ii):</b> The Borrower has adopted legislation needed for environmentally sound</p>	<u>Change of focus.</u> The focus of the second part of this PA, was shifted to cover construction waste. This is seen as a more pressing problem than packaging by the government.



		management and increased reuse and recycling rates of the construction waste by adopting the Decree on management of construction and demolition waste, published in Borrower’s Official Gazette No. 93/2023, dated October 27, 2023, as corrected pursuant to the corrigendum published in Borrower’s Official Gazette No. 94/2023, dated October 30, 2023.	
	<p><b>RI #9:</b></p> <p>a) Accessibility of the population to sanitary landfills in the Republic of Serbia;</p> <p>b) Number of unsanitary landfills under remediation.</p> <p><b>Baseline:</b></p> <p>a) 42% (2021)</p> <p>b) 0 (2020)</p> <p><b>Target:</b></p> <p>a) 50% (2024)</p> <p>b) 3 (2024)</p>	<p><b>RI #9:</b></p> <p>a) Accessibility of the population to sanitary landfills in the Republic of Serbia.</p> <p>b) Number of unsanitary landfills under remediation.</p> <p>c) Multiple management/disposal options for sewage sludge created in Serbian strategic and legal framework.</p> <p><b>Baseline:</b></p> <p>a) 42% (2021)</p> <p>b) 0 (2020)</p> <p>c) No (2020)</p> <p><b>Target:</b></p> <p>a) 55% (2025)</p> <p>b) 4 (2025)</p> <p>c) Yes (2025)</p>	<p><u>Strengthened RI.</u> RI #9 was strengthened by adding sub-indicator c) on disposal options for sewage sludge.</p>
<p><b>Prior Action #10:</b> The Borrower has aligned national policy and legislation with the EU National Emissions Ceiling Directive and the Air Quality Framework Directive, as evidenced by adoption of the Air Protection Program in the Republic of Serbia for the period from 2022 to 2030 with an Action Plan, including specific interventions to address emissions from medium combustion plants, duly published in the Borrower’s Official Gazette</p>	<p><b>Indicative Trigger #10:</b> The Borrower has adopted the Amendment to the Law on Industrial Pollution Prevention and Control (IPPC) by strengthening the reference to Best Available Techniques (BAT) and to Integrated Permits, and ensuring adequate level of coordination between competent authorities for addressing industrial pollution.</p>	<p><b>Prior Action #8:</b> The borrower has enabled issuance of emission permits through the new online portal by adopting: 1) the Rulebook on the application for an integrated pollution prevention and control permit, as published in Borrower’s Official Gazette No. 4/2024, dated January 19, 2024; and 2) the Rulebook on the format and content of the application for integrated permit, published in Borrower’s</p>	<p><u>Strengthened PA.</u> PA#8 was changed to focus on most recent effort to monitor and control emissions. The PA now takes the objective of the policy reform (pollution control) closer to its realization and policy reversal becomes more difficult once the rules for permitting have been established.</p>



No. 140, dated December 22, 2022.		Official Gazette No. 4/2024, dated January 19, 2024.	
	<p><b>RI #10:</b> a) Share of medium combustion plants (MCPs) with a thermal power from 1 to 50 MW out of the total number of MCPs registered in the National Register of Pollution Sources database, compliant with EU Directive 2015/2193 on the limitation of emissions of certain pollutants into the air from medium combustion plants. b) Air quality in Serbia expressed using a methodology that is aligned with EU air quality index; c) Number of integrated permits issued. <b>Baseline:</b> a) 0 (2020) b) 0 (2020) c) 36 (2020) <b>Target:</b> a) 30% (2024) b) 1 (2024) c) 50 (2024)</p>	<p><b>RI #10:</b> a) Share of medium combustion plants (MCPs) with a thermal power from 1 to 50 MW out of the total number of MCPs registered in the National Register of Pollution Sources database, compliant with EU Directive 2015/2193 on the limitation of emissions of certain pollutants into the air from medium combustion plants. b) Number of integrated permits issued. <b>Baseline:</b> a) 0 (2020) b) 36 (2020) <b>Target:</b> a) 35% (2025) b) 55 (2025)</p>	<p><u>No substantial change.</u> The RI #10 (b) was removed because the government informed the Bank that there are no technical capacities to introduce the new air quality index.</p>



**ANNEX 4: Letter of Development Policy**



Ministry of Finance  
Republic of Serbia  
Kneza Milosa 20  
Belgrade, Serbia  
January 17, 2025

Mr. Ajay Banga  
President  
The World Bank  
1818 H Street NW  
Washington DC 20433  
USA

**Subject: Letter of Development Policy for the Second Serbia Green Transition Programmatic Development Policy Loan (P178115) with the World Bank**

Dear President Banga,

On behalf of the Government of the Republic of Serbia, I have the pleasure of submitting to you this Letter of Development Policy for the Second Serbia Green Transition Programmatic Development Policy Loan (DPL) in the amount of US\$ 160 million. The Government of the Republic of Serbia appreciates its long-standing partnership and cooperation with the World Bank, as envisaged by the current Country Partnership Framework 2022-26. This letter summarizes the macroeconomic framework and critical aspects of the reform program under the second DPL of this series that we are committed to undertaking to: (1) better align fiscal management with the climate-change agenda, 2) accelerate the clean energy transition, and 3) align with European Union (EU) standards on environment and climate action. The DPL instrument has proven to be an effective mechanism in channeling development partner support to policy reforms in Serbia, which we acknowledge too.

**Macroeconomic framework and key structural reforms**

The Government of Serbia adopted on October 31, 2024 the Fiscal Strategy for 2025–2027, which outlines our macroeconomic and fiscal policy for the medium-term. The main goals of our economic policy are: a) maintaining macroeconomic stability while creating basis for the faster economic growth, b) keeping fiscal deficits at levels that will curb the growth of public debt and keep it on a downward path, and c) continued investment in the strategic infrastructure and green transition related activities. We just successfully completed Stand-By Arrangement with the International Monetary Fund and got approved the new program (Policy Coordination Instrument) to anchor our macroeconomic policies going forward.

Over the previous couple of years, the focus of our government was on restoring the macroeconomic stability, primarily through a better control of budgetary expenditures, which resulted in a declining fiscal



deficit and reduction of the public debt as a percent of GDP. Additional challenge that we needed to deal with over the previous two years was a high inflation caused primarily by different global development, including high energy and food prices.

While, Serbia was like other countries hit hard by the COVID-19 pandemic, the Serbian economy contracted only by 1 percent in 2020. The decline would be even deeper if not for the timely and sizeable fiscal response by our government which helped us to mitigate potential further negative impacts on the economy and standards of living. The economic recovery started in 2021 when GDP increased by 7.9 percent in real terms. Unfortunately, 2022 and 2023 turned out to be challenging years as well. Several global developments including a significant increase in energy prices and raising the cost of borrowing on international markets. These global and regional developments had a significant economic impact on our economy. In response, the Serbian government has taken action: we are increasing public investment and supporting consumption in order to increase the aggregate demand, and subsequently growth. However, we need to coordinate this effort closely with the National Bank of Serbia since the inflation in the country is still close to the upper limit of the target band  $3 \pm 1.5$  percent. In addition, we successfully implemented the two-year IMF Stand-by Arrangement, which was approved by the Fund's Board in December 2022. During the last review mission in October 2024, we also requested the new program with the Fund – a 2-year Policy Coordination Instrument. The program will support the necessary fiscal adjustment, to maintain hard-won macroeconomic stability, and to keep the fiscal deficit to around 3 percent of GDP by 2027. This should help decrease the public debt-to-GDP ratio to 46.5 percent of GDP by the end of 2027. We requested the new program with the IMF despite the fact that our budget is highly liquid and the government, as of October 2024, has EUR 5.5 billion (about 6.7 percent of GDP), the record high level in our history. Finally, we would like to emphasize that as a recognition of these achievements related to our macroeconomic policy over the recent years, Serbia got the investment grade rating for the first time ever in October 2024.

Over the medium-term (2025-2027), we expect the main macroeconomic indicators to converge to pre-pandemic trends: growth is expected to be above 4 percent annually, inflation is expected to return to the National Bank of Serbia target band of around 3 percent in 2025, and the current account of the balance of payments is foreseen to return to levels seen before the latest international energy crisis (i.e. around 5 percent of GDP), so that external debt sustainability is ensured. We also expected a continued high level of inflow of foreign direct investment. Consequently, we expect a further increase in official foreign currency reserves. To achieve these goals, the Government of Serbia is implementing an ambitious plan for structural reforms supported by prudent fiscal policy over the medium term and in coordination with the National Bank of Serbia.

The analytical work and technical assistance of the World Bank been particularly welcome to sustain these reform efforts, which accelerated following the formation of the new government in May 2024. Importantly, as evidence by the program supported by the programmatic Serbia Green Transition Development Policy Loans, we wish to move to a growth pattern which is green and more resilient. Alongside the more familiar set of reforms geared at fostering faster private sector-led growth, we aim to green the budget, modernize the energy sector with more emphasis on renewables and align our legal and regulatory framework on climate change with those of the EU – the ultimate goal continues to be full membership in the EU. Most of these reforms are presented in the recently adopted Reform Agenda which was submitted to the European Commission.

We are also grateful to the World Bank for catalyzing the technical assistance from a host of development partners in the pursuit of our aspiration – notably the French AFD, the German KfW, the Swiss SDC and



SECO, EU, IMF and other international financial institutions and external partners. On what concerns this specific operation, we would like to emphasize the successful cooperation with the AFD and the German Development Bank (KfW) with whom we reached an agreement of parallel financing to this loan in the order of up to EUR 135 million each.

### Government of Serbia's Program of Reforms

Our government is committed to transforming Serbia into a fast-growing, environmentally friendly, and fiscally sustainable economy. We are aware that achieving this includes structural reforms that focus both on the public sector and the economy. Over the last two years, we have put together a comprehensive and ambitious program of reforms that will pave the way for Serbia's green transition in the years ahead. Starting in 2021, and accelerating in late 2022, this program of inter-related reforms—which were supported by the First Serbia Green Transition Programmatic Development Policy Loan from the World Bank, and now the Second Serbia Green Transition Programmatic Development Policy Loan, both of which financed in parallel by the AFD and KfW — is organized around three key pillars, to: 1) align fiscal management with the climate-change agenda; 2) accelerate the clean energy transition; and 3) strengthen the legal framework for GHG mitigation and pollution management.

#### *Pillar I: Align fiscal management with the climate-change agenda*

As a pre-condition for greener growth, we are committed to adopting and sustaining key reforms aimed at strengthening the efficiency, transparency, and sustainability of the public sector, in order to mitigate fiscal risks and to prevent further growth setbacks, that in the recent past related to natural disasters too. We have prepared and implemented a suite of reforms to increase transparency of budget execution, to better monitor and manage fiscal risks and to better manage expenditures related to environment and climate-friendly projects. These reforms are supported by measures under the first pillar of the Second Serbia Green Transition DPL. In addition, we would like to express an interest in maintaining the dialogue about this important reform area going forward.

In addition to the reforms supported under the first loan in this DPL series, related to: fiscal transparency, quantitative assessment of fiscal risks and improved public investment management, we implemented next steps of the reforms supported by the second loan in this series in order to build synergies and to continue with the reform momentum. More specifically, our government implemented the following reforms under the Pillar I:

- We introduced a legal obligation to use green budget tagging by amending the Budget System Law and expanded the use of gender responsive budgeting. Regarding green budget tagging, we established a working group to prepare for introduction of green budget tagging for all budget users. The goal was to introduce a rule-based system capable to report on all budget expenditures that are relevant for achieving goals related to the green agenda (i.e. environment- and climate-friendly). The interministerial working group prepared the Methodology for tagging green expenditures as well as all needed forms and reporting requirements to make it operational starting with the 2025 budget. Regarding the gender responsive budgeting we adopted the annual plan for its expansion on increased number of budgetary beneficiaries.
- Based on the analytical underpinning from the recently introduced methodology and models for fiscal risks management, we expanded the analysis of possible fiscal impacts related to the climate change



and natural disasters as presented in the Fiscal Strategy. We are continuously on better management and oversight of all fiscal risks, and the work on natural disasters and climate related events progressed significantly thus providing us with a valuable information for our medium-term fiscal projections.

**Pillar II: Accelerating the clean energy transition**

Recognizing that the Serbian economy relies heavily on fossil fuels for electricity and heat generation and industrial output, we are committed to accelerating the clean energy transition. Reforms related directly to this agenda are supported by this pillar of the DPL and the Strategy for Energy Sector Development till 2040 with projections till 2050 (adopted in October 2024) confirms our views and priorities for the sector as whole. Complying with our international obligations under the Energy Community Treaty, we also adopted the Integrated National Energy and Climate Plan (INECP), which sets out Serbia's decarbonization targets up to 2030 aligned with the EU long-term 'net zero' ambition for 2050. The INECP was approved in July 2024.

The adoption of a comprehensive legal package supported by DPL1 – including the new Law on Renewable Energy Sources, the new Law on Energy Efficiency and Rational Use of Energy and amendments to the existing Energy Law and Mining Law – was a major step towards creating a cleaner and more sustainable energy sector. Development and adoption of the secondary legislation to implement these laws are supported under the second pillar of the DPL2. At the same time, we continue pursuing market-oriented reforms in our energy utilities, and in the current crisis environment, are expanding the protection of the energy vulnerable households. More precisely, we implemented the following reforms under the Pillar II:

- In order to increase the share of clean energy, we are further improving secondary legislation related to renewable energy (RE) auctions. We just completed the second auction of renewable energy capacities, which will double the currently available wind capacity. Further, and thanks to KfW technical assistance, we work on strategic and regulatory conditions for the production, transport, storage and use of green hydrogen.
- We keep promoting energy efficiency activities through implementation of the energy audit methodology as well as by developing the legal framework for eco-design of various energy related products, in line with the existing EU legislation in this field.
- We have also achieved significant progress in energy market reforms aligned with the EU Third Energy Package and Fourth Energy Package (Clean Energy package). Our national utility company 'Elektroprivreda Srbije' (EPS) – has been transformed into the joint stock company. This will help to improve the overall management and financial reporting practices, thus leading to efficiency gains.
- 'Elektroprivreda Srbije' developed GHG emission monitoring plans, for the purpose of measurement and reporting of carbon emissions at key EPS power plants and other energy facilities. Based on these monitoring plans the EPS got first licenses for GHG emissions. This was a key prerequisite for reducing emissions at the power sector facilities.

We would like to emphasize that in the past years, the energy crisis created additional challenges, putting at risk the financial sustainability of Serbian utilities while increasing the energy vulnerability of the population. In this context, to stabilize the financial situation of EPS, electricity tariffs for customers entitled to a guaranteed supply were increased in May and November 2023. To shield the most



vulnerable citizens from the impacts of increasing energy tariffs, we revised the Decree on Energy Vulnerable Customers (EVC), to allow to pensioners with lowest benefits to get access to this program in period October 2023 – March 2024.

**Pillar III: Strengthen the legal framework for GHG mitigation and pollution management**

Our Government remains committed to joining the EU, and given that ambition, Serbia has submitted its chapter 27 negotiating position to the EU and is signatory to the Sofia Declaration on the Green Agenda for the Western Balkans, which aligns with the objectives of the EU Green Deal. Given that climate change is already impacting our country through increased frequency and intensity of extreme weather events, we aim to pursue a green transition. Having adopted the Law on Climate Change in 2021, we are stepping-up our efforts to enable its implementation, to accelerate our transition towards a low-carbon and climate-resilient economy.

Specifically, we implemented the following key measures as part of Pillar III of this DPL:

- Regarding climate change, we adopted additional bylaws that enable the operationalization of a Monitoring Reporting and Verification (MRV) system of GHG emissions needed for the establishment of a national GHG inventory, as well as for the operationalization of a national MRV IT platform for the GHG permitting system. Finally, we adopted the State of the Environment report for 2023 which includes the national inventory of GHG emissions, which until now was published only in national reports under the UN Framework Convention on Climate Change.
- We adopted the National Sludge Management Program and Action Plan that subsequently enabled the adoption of the legislation dealing with the sewage sludge management. Also, we adopted the Decree on management of construction and demolition waste.
- Finally, in accordance with the Law on Integrated Pollution Prevention and Control (IPPC), two new bylaws were adopted at the beginning of 2024: 1. Rulebook on the content and appearance of the integrated permit ("Official Gazette of RS", No. 30/2006, 4/2024) 2. Rulebook on the content, appearance and manner of filling in the application for the issuance of an integrated permit ("Official Gazette of the RS", No. 30 /2006, 32/2016, 44/2018 - other Law 4/2024). Also, in 2025, establishment of an Information system for electronic receipt of Requests and issuance of Permits for IPPC plants was planned.

As mentioned previously, we deeply value our partnership and ability to work in cooperation with the World Bank and other development partners on this important reform agenda, most notably the AFD and KfW. The Government of Serbia provides its full commitment and highest assurances to the World Bank that it will use its best efforts to secure the timely enactment and put in place the needed implementation arrangements of all these critical reforms.

Sincerely,

  
Simša Milić  
The First Deputy Prime Minister  
And  
Minister of Finance



## **ANNEX 5. Required Accompanying Documentation**

### **Fund Relations Note**

See the latest valid IMF press release for Republic of Serbia: IMF (December 9, 2024):

IMF Executive Board Concludes the Fourth Review Under the Stand-By Arrangement for the Republic of Serbia, Cancels the Stand-By Arrangement, and Approves a 36-Month Policy Coordination Instrument

<https://www.imf.org/en/News/Articles/2024/12/09/pr-24458-republic-of-serbia-imf-concludes-4th-rev-under-sba-cancels-sba-approves-36-month-pci?cid=em-COM-123-49404>



**Bibliography**

PA	Bibliography	Operational Support
<b>Pillar I - Program Development Objective A: Align fiscal management with the climate-change goals</b>		
<b>PA #1</b>	World Bank: Supporting Serbia’s Transition to Greener and More Resilient Growth - Policy and Institutional Reforms (2022)	Improving Public Financial Management for the Green Transition Program for Results (P175655)
	World Bank: Public Expenditure Financial Accountability Report (2020)	Strengthening Fiscal Governance in the Western Balkans (P180191), EU funded TF
	Republic of Serbia: The Public Finance Management Reform strategy (2021)	Strengthening Institutional Capacity for Fiscal Risk Monitoring and Management (P173419), the Swiss funded TF
	World Bank: Serbia Gender Assessment (2024)	
	IMF technical report “Republic of Serbia: Developing a Methodology for Tagging Green Spending” (2023)	
	World Bank: Western Balkans 6 - Country Climate Development Report (2024)	
	UN Women: Gender and Climate Financing Baseline Study for Serbia and Bosnia and Herzegovina (2023)	
	State Audit Institution: Performance audit of gender responsive budgeting (2023)	
<b>PA #2</b>	Mapping Institutions and Stakeholders for Environment and Climate Change (2021)	Improving Public Financial Management for the Green Transition Program for Results (P175655)
	World Bank Public Expenditure Financial Accountability Report (2020)	Strengthening Fiscal Governance in the Western Balkans (P180191), EU funded TF
	Republic of Serbia: The Public Finance Management Reform strategy (2021)	Strengthening Institutional Capacity for Fiscal Risk Monitoring and Management (P173419), the Swiss funded TF
	World Bank: Western Balkans 6 - Country Climate Development Report (2024)	
<b>Pillar II – Program Development Objective B: Accelerate the clean energy transition</b>		
<b>PA #3</b>	World Bank Western Balkans 6 Energy Transition PASA	World Bank project: Serbia Scale Up of Residential Clean Energy Project (P176770)
	World Bank: Western Balkans 6 - Country Climate Development Report (2024)	
<b>PA #4</b>	World Bank: Supporting Serbia’s Transition to Greener and More Resilient Growth - Policy and Institutional Reforms (2022)	Enhancing Infrastructure Efficiency and Sustainability PforR (P163760)
	World Bank: Serbia District Heating Tariff Study and Poverty and Social Impact Assessment	World Bank project: Serbia Scale Up of Residential Clean Energy Project (P176770)



<b>PA #5</b>	<p>World Bank: Energy Pricing in Serbia: A Summary of Existing Analytics (2021)</p> <p>World Bank: Western Balkans Regular Economic Report No. 21: Steering Through Crises (Spring 2022)</p> <p>World Bank: Western Balkans 6 - Country Climate Development Report (2024)</p>	RAS Serbia EPS Results Based Management Project (P167033)
<b><i>Pillar III – Program Development Objective C: Strengthen the legal framework for GHG mitigation and pollution management</i></b>		
<b>PA #6</b>	<p>World Bank: Supporting Serbia’s Transition to Greener and More Resilient Growth - Policy and Institutional Reforms (2022)</p> <p>World Bank: Western Balkans 6 - Country Climate Development Report (2024)</p> <p>World Bank: Mapping Institutions and Stakeholders for Environment and Climate Change (2021)</p> <p>Republic of Serbia: Second National Communication under the UNFCCC (2017)</p> <p>Republic of Serbia: The Low Carbon Development Strategy (2023)</p>	
<b>PA #7</b>	<p>Republic of Serbia: National Programme for the Adoption of the EU acquis (2018)</p> <p>World Bank: Mapping Institutions and Stakeholders for Environment and Climate Change (2021)</p> <p>Republic of Serbia: Roadmap for Circular Economy in Serbia (2021)</p>	
<b>PA #8</b>	<p>World Bank: Western Balkans 6 - Country Climate Development Report (2024)</p> <p>European Commission: Serbia Report (2024)</p> <p>European Commission Joint Research Center: Status of Air Pollutants and Greenhouse Gases in the Western Balkans (2020)</p> <p>Republic of Serbia: Air Quality Program of The Republic of Serbia for the period 2022-2030 with an Action Plan (2022)</p> <p>Serbian Environment Protection Agency: 2023 Annual Report on Air Quality in the Republic of Serbia (2023)</p> <p>World Health Organization: Health Impact of Ambient Air Pollution in Serbia (2019)</p>	