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ANNEX

of the Commission Implementing Decision on the Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of the Republic of Serbia for the year 2023

Action Document for the State and Resilience Building Contract for Serbia

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	State and Resilience Building Contract for Serbia Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Serbia for the year 2023
OPSYS	ACT-61585
ABAC	ABAC Commitment level 1 number: JAD.1104027 (IPAI/2023/JAD.1104027/AAP-ESP Serbia 2023)
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe	No
Beneficiar(y)/(ies) of the action	Serbia
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 3: - Green agenda and sustainable connectivity Thematic Priority: 2: Transport, digital economy and society, and energy (60%) Window 4 – Competitiveness and inclusive growth Thematic Priority 1: Education, employment, social protection and inclusion policies, and health (20%) Thematic Priority 2: Private sector development, trade, research and innovation (20%)
Sustainable Development Goals (SDGs)	Main SDG (1 only): 7 (Affordable and Clean Energy) Other significant SDGs: - SDG 5 Achieve gender equality and empower all women and girls - SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

	<ul style="list-style-type: none"> - SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation - SDG 10 Reduce inequalities within and among countries - SDG 13: Take urgent action to combat climate change and its impacts - SDG 17 Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development 			
DAC code(s)	15110 - Public sector policy and administrative management 15142 - Macroeconomic policy 16010 - Social protection 23110 –Energy policy and administrative management 32130 - Small and medium-sized enterprises (SME) development			
Main Delivery Channel @	Central government – 11001			
Targets	<input checked="" type="checkbox"/> Climate <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity			
Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers @	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Internal markers and Tags	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Tags digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
	Connectivity @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Tags digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
	Migration @	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	COVID-19	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	Budget line: 15 02 02 01 Total estimated cost: EUR 165 000 000 Total amount of EU budget contribution EUR 165 000 000 The contribution is for an amount of EUR 165 000 000 from the general budget of the European Union for 2023, subject to the availability of appropriations following the adoption of the relevant annual budget by the Budgetary Authority, or as provided for in the system of provisional twelfths.			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Budget Support Direct management through: - Budget Support: State and Resilience Building Contract			
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	Contributing to the Economic and Investment Plan (EIP):	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
	Flagships: “IV Renewable Energy”, “V Coal Transition”, “VI Renovation Wave” Priorities: “Private Sector Support”, “Energy”, “Green Agenda”, “Human Capital Development”			
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023			
Final date for concluding contribution /	Not applicable			

delegation agreements, procurement and grant contracts	
Indicative operational implementation period	24 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	8 years following the conclusion of the financing agreement

1.2. Summary of the Action

This is a Budget Support programme aimed at mitigating the immediate socio-economic impact of the energy crisis and improving energy resilience in Serbia. The Specific Objective or Outcomes of this action are to: 1) counteract the immediate and short term negative impacts of the energy crisis on Serbia, with a special focus on vulnerable customers (households and small and medium enterprises), as well as 2) support Serbia's medium and long-term objective of green energy transition with a view to increase Serbia's security of supply.

2. RATIONALE

2.1. Context

Energy prices in Europe began rising steeply in 2021 following the lifting of the COVID-19 pandemic lockdowns, this was followed by further price increases due to Russia's war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices rapidly contributed to already rising inflation and impacted consequently other sectors as well, like manufacturing, transport and all service sectors in general, as well as the costs of households.

This crisis has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan¹ and its EU external energy strategy² and as reiterated by the President of the European Commission in her State of the European Union address³.

The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. The EU and the Western Balkans partners need to work hand in hand to increase the energy security as a matter of urgency.

Against this background, the privileged relationship of the Western Balkans, has allowed to extend to the Region several initiatives that were taken in the EU in the last months.

¹ [REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition.](#)

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=JOIN%3A2022%3A23%3AFIN&qid=1653033264976>

³ [State of the Union 2022 \(europa.eu\)](#)

For instance, as immediate response to the energy crisis at EU level several actions have focused on the gas sector. Under the mandate of the European Council, the European Commission and the EU Member States a concerted effort has been made on establishing a voluntary EU energy purchase platform for gas and hydrogen which enables countries to team up to secure affordable energy supplies from reliable partners. Those efforts are accompanied by supporting measures: international outreach to current and potential gas exporters, and regional and pan-EU work streams for ensuring the most efficient use of the existing infrastructure under new patterns of gas flows. This work will also serve as a basis for the development of the global hydrogen market.

The European Commission and the European Council have invited the Western Balkans to join the platform for joint purchases of gas to lower the dependency on Russian gas. The regional platform for South East Europe has prepared a detailed action plan outlining quick measures needed to accurately assess the gas demand and infrastructure potential in the region. Serbia and North Macedonia have participated in this discussion (all IPA III beneficiaries from the Western Balkans were invited). It should be noted that currently only three of the Western Balkans have gas markets (Serbia, North Macedonia and Bosnia and Herzegovina). The EU Gas Storage regulation was incorporated in the Energy Community law on 30 September, making the filling targets and arrangements as well as storage certification mandatory also in the Western Balkan countries.

While there is an urgent need to support citizens and businesses, who face electricity and energy price increases and make necessary structural reforms in the short term, however, medium and long-term objectives for the region (decarbonisation, energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors) also remain unchanged to achieve the targets set under the Green Agenda for the Western Balkans⁴. The upcoming Energy Community Ministerial Council in December 2022 is expected to adopt 2030 climate and energy targets for each Energy Community Contracting Party. National Energy and Climate Plans will be agreed, providing the roadmaps to achieve 2030 renewable energy and energy efficiency targets and commit to coal phase-out dates.

In addition, in order to provide additional direct support to the Western Balkans region, at the Berlin Summit of 3 November 2022 the European Commission announced a pledge for the **Energy Support Package of EUR 1 billion in EU grants, with expectations to leverage investments of up to EUR 2.5 billion.**⁵ The Energy Support Package aims at addressing immediate, short-term and medium-term needs in the Western Balkans and in the context of the ongoing energy crisis:

- The immediate needs are related to the price increases in energy supply and specifically its impact on electricity production, which require the provision of budget support under this Action.
- The short- and medium-term needs relate to the ongoing energy transition, which includes energy diversification, greening through investments in renewable energy capacity, energy efficiency, connectivity of electricity and gas networks and interconnectors supported by the funding under the Western Balkans Investment Framework (WBIF).

The Energy Support Package is expected to provide to the entire Western Balkans region approximately EUR 500 million budget support in the form of State Building Resilience Contracts as immediate assistance under IPA III. The present Action address the immediate needs with a budget support to mitigate the impact of rising

⁴ SWD(2020) 223, 6.10.2020.

⁵ [Berlin Process Summit: EU announces €1 billion energy support package for the Western Balkans and welcomes new agreements to strengthen the Common Regional Market \(europa.eu\)](https://europa.eu/berlin-process-summit-2022/energy-support-package)

energy prices and to support the energy sector, businesses and citizens in coping with the rapid increase of prices of energy.

The Energy Support Package is consistent with and further reinforces the EU policy framework for cooperation with and for financial assistance to the Western Balkans, first and foremost the **Economic and Investment Plan for the Western Balkans (EIP)** adopted by the European Commission on 6 October 2020⁶.

Through the EIP, and its flagship projects, the EU support in the field of energy has been reinforced. Strong emphasis is put on energy market integration, decarbonisation and clean energy, increased use of renewable energy sources, increased digitalisation of the energy systems and smart grids, energy efficiency, including modernisation of district heating, and energy security. Enhanced connectivity and extension of the Energy Union to the Western Balkans is also instrumental for a successful clean energy transition in the region. In addition new funding has been approved to replenish the Regional Energy Efficiency Programme in support energy efficiency projects for public and private buildings.

The **Green Agenda for the Western Balkans** is an essential element of the EIP. Western Balkan leaders endorsed the EIP and the Green Agenda at the Sofia Summit in November 2020.

The **IPA Programming Framework**⁷ sets the overall objectives of the EU's assistance under Window 3. The overall objectives of the EU's assistance under Window 3 are to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, accelerating the shift towards a low-carbon and circular economy and develop the digital economy and society. The current action will contribute to boosting resilience of the Western Balkans partners in the current energy crises. The action is also relevant for Window 4, particularly for supporting private sector and vulnerable households.

On 12 October 2022, the European Commission adopted the 2022 **Enlargement Package**⁸, providing a detailed assessment of the state of play and the progress made by the Western Balkans and Türkiye on their respective paths towards the European Union, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. When it comes to the energy crisis, the package refers to the need of closer coordination of actions and cooperation amongst the Western Balkans partners and with the EU to tackle the energy crisis.

Serbia-specific context

Energy intensity in Serbia is several times higher than in the EU Member States with about 35% of energy consumed by private households, and 10% by commercial and public services. In Serbia, consumption of heat energy represents more than 60% of all final energy consumed in households while about 13% is spent on preparation of hot sanitary water and about 10% is used by household appliances. The construction sector, and particularly the residential sector, is the most challenging for the implementation of systematic measures for improvement of energy efficiency. First there is the economic situation of households with very low incomes, but also the level of awareness of the population. To reach the potential of the energy sector's contribution to economic growth and its ability to attract private and foreign investments, it is necessary to address structural challenges, improve energy efficiency and to harmonise the legislative framework with the EU *acquis*. This would also contribute to increased regional cooperation.

In relation to energy poverty, Serbia accepted the obligations under the Third Energy Package, and transposed them into the Law on Energy in 2014. This law introduced the obligation to protect energy-vulnerable

⁶ COM(2020) 641 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions An Economic and Investment Plan for the Western Balkans

⁷ C(2021) 8914 final

⁸ COM(2022) 528 final

customers with the aim of reducing energy poverty (in accordance with the Directive 2009/72/EC for the internal market of electricity and 2009/73/EC for the internal market of natural gas). In connection with this, it was necessary to create an adequate policy for the protection of energy-vulnerable customers, so the Regulation on energy-vulnerable customers was adopted in 2015 ("Official Gazette of RS", number 113/15), and amended in 2018.

The European Commission's 2022 annual report for Serbia states that in the area of social inclusion and social protection, in 2020, 6.9 % of the population was considered to be living in absolute poverty. According to the latest survey on income and living conditions, the at-risk-of-poverty rate was 21.7 % in 2020 (while in the EU-27 this is 17.1 %) and the at-risk-of-poverty or social exclusion rate was 29.8 % (in the EU-27 it is 21.9 %). As in previous years, there is more poverty in rural than in urban areas. In 2019, almost 10% of Serbian households had difficulties in keeping their homes adequately warm during heating season, compared to 7.3% of households in the EU. Women are also at greater risk of energy poverty and exposure to health and environmental energy-related hazards. To address energy poverty and its gender specific outcomes it is accordingly necessary to develop a set of tools and policy instruments which also integrate gender specific actions into the energy sector. Structural barriers related to behaviour and financial capacities need to be removed in order to improve access to more efficient low cost and low maintenance appliances for most vulnerable groups, reducing, therefore, energy poverty wherever possible. In terms of the current energy crisis, these considerations become even more urgent, and of need of further support.

The Law on Energy, which entered into force on April 30, 2021 ("Official Gazette of RS", No. 145/14, 95/18, 40/21) created a legal basis for the adoption of a new regulation on the energy-endangered customer, which will increase the degree of protection of vulnerable customers and to extend the scope of rights to heat energy, all with the aim of alleviating the energy poverty of an increased number of households due to the current increase in the prices of energy and energy products and growing inflation. Also, by protecting vulnerable customers at the expense of the budget, prerequisites are created for the sustainable operation of the energy sector and conditions are established for the development of the energy and energy market.

With that in mind, in terms of vulnerable households, the Ministry of Finance and the Ministry of Energy of Serbia prepared an updated legislative proposal for a Decree on the Energy Vulnerable Customer. The adoption of the regulation is expected at the beginning of December 2022. The regulation is not however new, similar regulations have been in place in the past. However, the current proposal updates the previous ones, expanding and better defining the type of household that can fall under the criteria of vulnerable in the context of the energy crisis.

Under the new decree, the status of energy vulnerable consumer based on criteria and conditions related to financial position (calculated for the members of the household), entitlement to financial social assistance or child allowance or increased allowance for assistance and care of another person; or the health status of the household member. The overdue debt for electricity, natural gas or heat energy does not deny a consumer the right to acquire the status of energy vulnerable consumer.

The World Bank estimated that the number of households that will achieve the status according to the new criteria and conditions will be around 200,000 households. However, it remains challenging to give a fully accurate estimate, given that this number depends on various economic and financial factors, including factors related to the implementation of the regulation. The percentage of households directly targeted by the Action is 67,000 or approximately 34%. In this sense, the Action complements the measures put in place by the authorities, where 4 billion dinars (34,112,302 EUR) have been planned for these subsidies in the National Budget for 2023 to cover the needs of vulnerable household.

In terms of small and medium enterprises, and the impact of the energy crisis, there is the regulation on guaranteed supply, the definition of small customers, which are the end customers (legal entities) that can also benefit from this measure. These include: enterprises that have less than 50 employees; a total annual income in the amount of up to 10 million EURO in Serbian dinar equivalent; whose facilities are connected to the electricity distribution system with a voltage of less than 1 kV and whose consumption of electricity in the previous calendar year was up to 30,000 kWh. The target of the Action is around 70,000 SMEs (micro and small enterprises).

The total number of micro and small enterprises (excluding individual entrepreneurs) in Serbia in 2021 was 99.898. The percentage that this EU programme will be supporting directly through this Action will be, therefore, approximately 70%.

In a more mid to longer term approach, Serbia is also in the process of preparation of a new Energy Sector Development Strategy until 2050 as well as an integrated national energy and climate plan (NECP) for the period 2021-2030 and projections until 2050. NECP will set new targets in the field of RES, energy efficiency and reduction of GHG emissions until 2030 as a Serbian contribution to the EU policy in the field of energy and climate. The plan will take a holistic approach and address the five main dimensions of the Energy Union as recommended by the Energy Community (Recommendation 2018/01/MC-EnC on preparing for the NECPs) and will be the basis for the new Energy Strategy and the program for the implementation of the Energy Strategy. The sector lead institution is the Ministry of Mining and Energy. The Ministry is responsible for preparation of the NECP and new Energy Strategy as well as for monitoring of its' implementation.

2.2. Problem Analysis

Short problem analysis

According to the Energy Community Secretariat the security of energy supply risk profile for the season 2022/23 in the Western Balkans is considered “low” for Bosnia and Herzegovina and Serbia and “medium” for the remaining four partners (compared to “high” in Ukraine and Moldova). The specific risk profile for Serbia is as follows:

Energy Community risk assessment Serbia 2022/23 LEVEL OF RISK (high, moderate, low): *Low to Moderate*

Sources of risk: European and regional (SEE) market disturbances; coal availability, affordability

Total energy supply in 2020 by source (approx. 669218.1 TJ): 52% coal, 25.5% oil products, 14% natural gas, 8% biofuels and waste, 0.5% wind/solar

* imports: 22133 TJ coal, 151896 oil/, 19 500 TJ electricity, 73709 TJ natural gas, 36654 TJ oil products

* exports: 590 TJ coal, 19227 TJ electricity, 37041 TJ oil products.

Gas:

* 14% of total energy supply. (90% of Russian origin, coming via the Türkiye connection from Bulgaria, another link to Bulgaria being developed, supported by the EU) the existing ‘old’ interconnector with Hungary – towards Serbia – is idle as of late, but blocked for usage by Srbijagas, the incumbent supplier),

* UGS (51% owned by Gazprom) is being filled up to its almost maximum 450 mcm capacity, typical daily demand in winter is 12 mcm. Additional gas is stored in Hungary (up to 500mcm) Serbia has to ensure that by 1 nov 2023 the storage is full at 90%

* halting Russian imports would require replacing supplies partly from storage in Hungary and reduce industrial use. Stored gas would last 100 days at max rate of withdrawal. After that industry would be cut and the vast heat demand replaced with mazut⁹ (90% of production capacities can switch fuel).

* The impact of gas shortcuts could be on the electricity sector too due to the transfer of part of heat demand to electricity (gas-to-power is only 2.6% of annual demand, but is increasing in the last years).

Electricity (for 2020):

⁹ A liquid residue remaining after the distillation of petroleum and which is chiefly used as a fuel oil, used in power plants and similar applications.

electricity production mix:

68% coal, 26% hydropower, 1.2% natural gas (new plant in Pancevo starts in 2021), 2.6% wind

* Cross-border transmission capacities are very strong and can support large electricity imports;

* There are four gas-power plants in Serbia. Some of them temporarily produce electricity in order to compensate lower production of coal power plants. New gas power plant in Pancevo primarily covers needs of oil refinery but surplus is available for the market.

EIP gas priority projects: Bulgaria – Serbia, Serbia – North Macedonia

The most significant problem in the region in the short term is related to prices of imported electricity. Western Balkan partners with the exception of Bosnia and Herzegovina are systematically net importers of electricity. The import needs in 2022 are further exacerbated by the lower outputs of hydro plants due to draught.

Electricity prices in all countries of the region – particularly for domestic users – are centrally regulated and have remained below the production / import price, as well as below the European market price (between 22-41% of the EU average). This puts additional pressure on partners' budgets to cater for the financial losses of the Utility providers.

An increase of electricity prices for businesses and consumers to market level is however perceived by partners as destabilising the social situation, being not affordable for the majority of residential consumers, and even a factor leading to bankruptcy for commercial users.

It should be noted that Serbia in mid-October 2022 introduced an export ban on natural gas, which so far has not been justified under the SAA Agreement or Serbia's contractual obligations within the Energy Community. The export ban further disrupts value-chains and trade flows, in addition to risking that other countries in the region take similar action.

Serbia-specific problem analysis

Serbia is a relatively small energy market dependent on fossil fuels (49% coal/mainly cheap domestic lignite, 25% oil), with a relatively small share of gas in its energy balance (13%). At the same time, Serbia is an important transit country due to its central position in the Western Balkans and its many interconnections with EU neighbouring Member States. Thanks to domestic coal, Serbia's total energy dependency on imports is relatively low (approx. 40%; as compared to the EU's 61%). Nevertheless, Serbia depends to a much larger extent than the EU on gas imports from Russia (SRB: 92%, EU 41%). Energy has now become a central issue caused by the Russian invasion of Ukraine. Serbia's new gas deal with Russia extends the status quo as there is no short term alternative available, although its limited (three-year) duration allows for diversification once alternative supply routes come online, and the fact that it does not cover the annual consumption completely (2.2bcm out of cca 2.8bcm). At the same time, this allows Serbia to import gas at a price which is relatively cheap. Sufficient gas supply over the coming winter is therefore a matter of concern. Expansion of storage, new interconnectors and addressing regulatory and infrastructure bottlenecks in Serbia's internal gas network are priorities to reduce Serbia's dependence on Russian gas.

In the European Commission's 2022 annual report for Serbia¹⁰ it is stated that the country is moderately prepared in the field of energy. Limited progress has been made particularly regarding last year's recommendations, which remain valid in substance.

Energy intensity, i.e. total primary energy consumption per domestic product unit (per purchase power parity) was on the level of the countries in the region, but it was 1.71 times higher than the European average. Greater

¹⁰ SWD(2022) 338 final

energy intensity is partly a consequence of inevitable technical losses in the process of transformation of lignite into electricity (two thirds of electricity is produced from lignite). An important difference in the final energy consumption structure in comparison to the European Union lies in the high consumption share in households in Serbia and higher energy consumption share in transport in the EU.

In terms of unbundling, for the electricity transmission system operator AD Elektromreža Srbije (EMS AD) this has been completed, and the Energy Agency of Serbia (AERS) made the final decision on the certification of OPS on August 4, 2017. In September 2017, the Energy Community Secretariat requested that AERS initiate a certification procedure to re-evaluate the conformity of the EMS. In its act from April 2018, AERS remained with the final decision. .

In November 2021, Transportgas Srbija submitted a request for certification of the company according to the ISO model to AERS. The new gas supply company Srbijagas Novi Sad was established and registered in October 2021. The certification and unbundling of new companies, foreseen in Serbia's action plan for unbundling the gas sector, is delayed. There is no third party access to the gas system infrastructure of Transportgas Serbia, Gastrans and Yugorosgaz (Gastrans offers short-term capacity products for cca 10% of its technical capacity at the RBP platform). In order to ensure full third-party access, it is necessary to open the Horgoš access point on the Transportgas Srbija transport system. The Balkan Stream pipeline section in Serbia was connected to the Hungarian gas network in October 2021. Regarding the regulatory regime for this project, Serbia recognises the need for a tailor-made solution for the Gastrans company, in compliance with EU legislation. However, the exemption decision adopted for Gastrans was not in line with Energy Community law. The newly adopted Storage regulation also requires that Serbia certifies its only underground storage.

Most importantly, in relation to **energy poverty**, the Energy Law defines conditions and method of award of special modes of protection of energy-wise **vulnerable customers** from the household category. This foresees conditions for the reduction of monthly bill for final customers within this category, on the basis of criteria set by the Government of Serbia through Decrees in greater detail. Apart from general norms related to the protection of all electricity and natural gas customers, the Law also recognises the category of “energy (-wise) protected” customer which is a broader term than the “energy (-wise) vulnerable customer” since it covers, apart from customers entitled to social care, customers who need not be members of this category but still may have their lives or health endangered in case of electricity or natural gas supply disruption or limitation. The details of the criteria are described in the section above, along with the explanation of the rationale for this Action in providing further assistance and support to them.

The total number of customers who were exercising their right to bill discount for delivered electricity in 2021 decreased in comparison to last year (around 6%). If we have a look at separate months, the number amounted to between 56,626 in January and 68,129 in October 2021, i.e. 64,581 customers by average exercised their right to reduced electricity bill in 2021.¹¹ The adoption of a new Decree in December 2022 will expand the category to approximately around 200,000 customers, which justifies the need for further sector support.

In relation to specific needs, various studies and reports show that gender inequalities are prevalent in almost all areas of social life in Serbia, especially in the economic sphere, the labour market and when it comes to decision-making power, thus making women more susceptible to energy poverty. The data on poverty, published by the Statistical Office of Serbia show that elderly women are at greater risk of poverty compared to elderly men – in 2019 the at-risk-of-poverty rate for men older than 65 years was 18.3% and for women of same age, 23.2%. As women and men have different energy needs, priorities and consumption patterns, it is important to explore the position of women in this domain and strive to better understand intra-household dynamics in order to create policies which will reach to women and allow them to get benefits of measures aimed at eradicating energy poverty. This is equally relevant for people with disabilities and also for Roma communities. Particular attention should be paid to the Roma population living in unhygienic settlements, where there are serious energy vulnerabilities, in view of the makeshift nature of some of the settlements,

¹¹ 2021 Energy Agency Annual Report (AERS) - ГОДИШЊИ ИЗВЕШТАЈ АЕРС- НАСЛОВИ (aers.rs)

with limited options for energy efficiency, and in view of the relative poverty of the Roma communities living under these conditions, which requires particular attention and care.

To compound on the problems that Serbia is facing in the energy crisis, in December 2021, the Serbian energy sector faced an unexpected energy crisis due to bad planning and maintenance in coal production. Bad coal quality caused the shutdown of one of the biggest thermal power plants, forcing Serbia to import up to a third of its electricity consumption, and use old and inefficient gas power stations for electricity production. The additional electricity production also increased the import of expensive gas from the spot market at premium prices. The cost of additional electricity import in 2022 would approximately be at the level of 1 billion EUR. The stabilisation of the coal production in Kolubara mine is expected by the end of 2023 after opening of new field. Due to lower than usual electricity production, security of electricity supply remains critical during winter heating season, given that it will partially depend on electricity imports.

Complementarity with national strategies:

The action is fully in line with the Energy Sector Development Strategy of Serbia in place up to 2025. The three strategic priorities defined in the strategy include 1) **energy security**, whereby the goals of Serbia are defined as: reliable, safe, efficient and quality supply of energy and energy products; establishing the conditions for reliable and safe operation and sustainable development of energy systems and the energy sector in general; 2) the **energy market**, where the aims are: competitiveness on the energy market based on the principles of non-discrimination, publicity and transparency; protection of buyers of energy and energy products; development of electricity and natural gas markets and their connection with the EU single energy market; more intensive connection of the energy system of Serbia with the energy systems of other countries, especially those from the immediate environment and 3) **sustainable energy**, with the aims of provision of conditions for improvement of energy efficiency in the performance of energy activities and energy consumption; creation of economic, economic and financial conditions for increasing the share of energy from renewable energy sources, for the use of new energy sources; improvement of the state and system of environmental protection in all areas of energy activities. .

In terms of **energy poverty**. Serbia has prepared the draft Social Protection Strategy and its main goals are combating social exclusion and achieving poverty reduction, which would include energy poverty. The emphasis of the document will be on meeting the basic needs and minimum security of citizens, promotion of active participation in society, with an emphasis on providing support to families at risk and promoting gender and intergenerational solidarity and the overall improvement of governance in the system of social protection. The development of institutional mechanisms, services and programmes of cooperation and integrated support with other systems are also its main strategic directions.

Serbia has also adopted the Program for the Implementation of the Energy Sector Development Strategy for the period 2017-2023 (POS). It has identified the priority measures and activities in the three fields stated above, including in the definition of sustainable ways of financing energy efficiency projects and strengthening capacities in all three areas.

Finally, the Roadmap for low carbon economy 2050 in its scenario for decarbonisation presumes high energy efficiency, including more strict requirements for new products or buildings and energy savings in energy production facilities. An effectively operating Energy efficiency Fund and planned energy savings reflect the implementation of these goals, and financing for the EU for this aspect has been secured.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

In Serbia, the **Ministry in charge of Mining and Energy** performs the state administration tasks related to the areas of: energy; energy policy and energy development planning in the field of electricity, natural gas, oil and oil derivatives and other energy sources; energy balance of Serbia; oil and gas industry; preparation of proposals for acts, including related to the work and operations of public companies; energy security strategy and policy,; mandatory and other energy reserves; safe pipeline transport of gaseous and liquid hydrocarbons; production, distribution and supply of thermal energy; nuclear power plants whose purpose is the production

of electricity, rational use of energy and energy efficiency; renewable energy sources; environmental protection, sustainable use of water resources and climate change in the field of energy and other tasks.

The Ministry of **Labour, Employment, Veteran and Social Affairs** is responsible for policy development, implementation and monitoring in the areas of social protection, pension and disability insurance, protection of persons with disabilities and veterans, including social inclusion and poverty reduction measures. The MoLEVSA manages the work of negotiation groups for Chapter 2 and Chapter 19, established by the Government to coordinate and monitor gradual transposition of the EU acquis into national legislation and ensure necessary capacities for its implementation and enforcement.

The **Administration for financing and promoting energy efficiency** was established as a separate legal entity within the Ministry of Mining and Energy at the end of 2021 and started with operation in the beginning of 2022. According to the Law on energy efficiency and rational use of energy, the Administration is established for carrying out executive and expert operations relating to the financing of operations of efficient energy use in accordance with this Law and by-laws adopted on the basis of this Law and implementation of energy efficiency measures.

The **Energy Agency of Serbia**, in accordance with the Law on Energy and international agreements, performs the following activities: price regulation, licensing of energy entities to perform energy activities, deciding on appeals, supervision of the energy market and implementation of international agreements.

In addition to this, the Government of Serbia established the **Public Enterprise** for Transport, Storage, and Trade of Natural Gas "**Srbijagas**". The main activity of the company is trading in gaseous fuels through the gas pipeline network. The implementation of the Energy Balance and Energy Development Strategy of Serbia are the main parts of the company's business policy.

Finally, the Government of Serbia established the **Public Enterprise Electric Power Industry of Serbia** (EPS) which is tasked to supply customers with electricity, under the most favourable market conditions, with continuous service quality improvement, promoting environmental awareness and increasing the well-being of the community in which it operates. However, the EPS's capacity to set prices reflecting at minimum production costs has so far proven to be weak. As a consequence, the EPS is estimated to have suffered losses of up to EUR 20 million in the first half of 2022.

In addition to EPS, the Government is also the founder of **Elektrodistribucija Srbije**, which performs energy activities: distribution of electricity and management of the distribution system. There is also AD EMS, which is fully state-owned, and which performs energy activities: electricity transmission and transmission system management.

2.3. Lessons Learned

Serbia has benefited in the past from support for crisis situations. Substantial support was provided to Serbia in the context of the floods relief, from IPA 2014, and through special measures for migration management, from IPA 2015 onwards. In 2020, the declaration of the COVID-19 pandemic at worldwide level and escalation of cases in Serbia resulted in the declaration of the state of emergency in March 2020. Containment measures included closure of state borders for passengers and some vehicles; school closure; partial and complete lockdowns including suspension of public transport and curfews; creation of makeshift hospitals and emergency situation schedule of work for health institutions etc. The developments also required the quick reallocations of financial resources from programmed goals and activities toward activities aimed at alleviating the health, social and economic impacts of the situation.

Monetary and fiscal measures were taken to alleviate the immediate situation for the private sector and employment. Public administration at both national and central level was deeply affected, requiring new working arrangements and mobilisation around the new situation. In terms of PFM, the government adopted a EUR 5.1 billion (11% of the national GDP) financial package to support the economy. In view of this situation, the EU approved a re-allocation of unspent funds from the variable tranches of the PAR budget support from IPA 2015, in the value of 11 million EUR, to a single fixed tranche, to support the Government in continuing the implementation of the public administration reform process and continued implementation of PFM, and safeguard the results achieved and lead to the development of the new PAR strategy for the period after 2020.

This was part of the EU package of support for Serbia to tackle the coronavirus crisis (EUR 15 million for immediate support, such as purchase and transport of medical equipment, and additional funding for economic recovery). The disbursement followed the assessment of the general criteria achieved during 2020, i.e. during and in the immediate aftermath of the coronavirus crisis. It allowed the continued support to the Government for PAR and PFM reforms.

The main lessons learned include:

- Increasing local ownership and further development of administrative capacities are essential for the effective targeting of support and achieving the results agreed in line with the EU standards. Coordination between the national institutions in the overall long-term reform process is essential, as is allocation of human and financial resources in an adequate and effective manner.
- Increase of coordination between the central and local government bodies and their absorption capacity.
- All EU assistance must be complementary to and be consistent with Serbian institutions development, national strategies and action plans to be effective and to achieve impact and sustainability.
- Particular attention must be paid to the preparedness and maturity of the actions selected for support.
- Communication and visibility should continue to be improved to better reach out to the public about the achievements under this Sector Reform Contract.
- The participation of citizens and civil society organisations in all aspects of policy design and in line with Serbia's legislation should be promoted.
- The role and participation of the Ministry of Finance in all stages of the implementation of the budget support should be enhanced in order to streamline budgetary aspects linked to overall performance.

2.4. Additional Areas of Assessment for Budget Support Actions only

2.4.1. Public Policy

The **decarbonisation** dimension is articulated via two key axes, i.e. reduction of emissions and increase of renewable energy sources. The Law on Environmental Protection presents the main legislative basis regarding the environmental issues, while the newly adopted Law on Climate Change deals with the climate change issues exclusively. Through the implementation of the Law on Climate Change, Serbia should establish a system for reducing greenhouse gas emissions and ensure adaptation to changed climate conditions.

Regarding the emissions, the country adopted the National Emission Reduction Plan in 2020 as an important step towards the emissions reduction from large combustion plants and showed the country's commitment to become harmonised with the EU *acquis* in the areas of climate change, environment and energy. The adoption of the Energy Law in 2014 and Amendments on the Energy Law in 2021 aimed at harmonising the energy legislation of Serbia with the Third Energy Package.

In April 2021, Serbia adopted a dedicated Law on Use of Renewable Energy Sources for the first time. It provides a better regulatory environment for the modernisation of the traditional and centralised power generation system through the introduction of the concept of prosumers, energy communities and aggregators as decentralised actors in the future energy market.

In parallel, amendments to the Law on Energy were adopted as well as the Law on **Energy Efficiency** and Rational Use of Energy which sets the minimum energy efficiency requirements in the production, transmission and distribution of electricity and heat. The Law on planning and construction is relevant for energy performance of buildings. In February 2022, the long term building strategy was adopted by the Government. Numerous secondary legislation acts have been adopted.

In this law, more attention is given especially to **energy poverty**, which is marked as one of the key threats within the energy transition. The Law defines energy poverty as result of combination of low household income, large expenditure of available income on energy and insufficient energy efficiency.

In addition, the Decree on energy vulnerable customers sets up the eligibility criteria for acquiring the status of energy vulnerable customer and has been adjusted every year. The draft Decree is in preparation, and as explained, in view of the energy crisis in 2022, it expands upon the criteria for the energy vulnerable customers, increasing the number of persons to benefit from it. This increase is one of the key reasons for the implementation for this Action. One of the tasks of the Administration for financing and promoting energy efficiency is to prepare specific programmes for the implementation of energy efficiency measures with vulnerable energy customers and other customers with a view to reducing energy poverty.

The latest Fourth Action Plan for Energy Efficiency (4th EEAP) of Serbia for the period until 2021 was prepared in accordance with the requirements of Directive 2012/27/EU adopted by the Energy Community.

In 2017, the Degree on establishment of implementation of Energy Sector Development Strategy of Serbia until 2025 for the period from 2017 to 2023 was adopted. The Implementation Program document is linked to the Energy Sector Development Strategy of Serbia until 2025 and deals with its implementation for the period from 2017 to 2023.

The legislative and regulatory framework for the development and regulation of the **internal energy market** in Serbia is determined by the Law on Energy which transposed the majority of the Gas Directive and the Gas Regulation provisions.

Organised day-ahead market/power exchange in Serbia (JSC “SEEPEX”) was established in February 2016. The successful launch of the Serbian Day-Ahead Market is key for the power market in the South Eastern Europe since it is the first organised market in the region. In June 2022, the Government of Serbia adopted a decision on the appointment of the SEEPEX stock exchange as a nominated operator of the electricity market (NEMO). This appointment creates the conditions for the connection of the Serbian market with the markets of the surrounding European countries (eng. market coupling) and entry into the single European market.

In 2020, the Government approved an Action Plan for the Implementation of Activities for the Purpose of Reorganization of PE “Srbijagas”, which stipulates the separation of its gas transport and gas distribution activities, in line with the EU obligations. In accordance with the plan, the ownership of the Transportgas Srbija company was transferred from Srbijagas to the Government in May 2021.

The core elements in the legislation of Serbia that regulate **energy security** are the Law on Energy and Law on Commodity Reserves.

Serbia has well established security of supply secondary legislation through two major decrees; i.e. the Decree on Conditions for Delivery and Supply of Electricity and the Decree on Conditions of Natural Gas Delivery and Supply. Moreover, the country is fully aligned with the EU *acquis* on emergency oil stocks in the

framework of security of supply on, defined by Decree on determining the Program of measures in case the security of energy and energy supply is endangered (Emergency plan) and Decree on the procurement plan and criteria for the formation of mandatory oil reserves.

Serbia has developed the Emergency Plan for safeguarding of security of natural gas supply and Preventive Action Plan for safeguarding of security of natural gas supply. In May 2021 the Government adopted the updated Action plan for establishment and maintenance of emergency oil stocks.

Serbia adopted a long-term plan to establish and maintain emergency oil stocks in 2018 and the Emergency Response Plan in 2019. In 2019, the Ministry of Mining and Energy submitted the Security of Supply Statement 2018 to the Energy Community Secretariat.

In coherence with the above mentioned legislative framework, including the upcoming Preventive Action and Emergency Plans, the Government is set to prepare a **National Energy Crisis Roadmap** that will focus on the immediate needs to avoid energy poverty among vulnerable households, support SMEs to foster the 2022-2023 winter and continue along its path on clean energy transition, including by diversifying its energy sources. The Roadmap is being developed in cooperation with European Commission services and should anchor the immediate crisis response in the overall energy strategic framework.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.4.2. Macroeconomic Policy¹²

Key developments

On 11 September, Serbia announced the signature of a USD 1 billion loan agreement at a 3% interest rate with the United Arab Emirates. In November 2022 the Serbian authorities and IMF staff reached the staff-level agreement on the third review under the Policy Coordination Instrument (PCI) and a 24-month Stand-By Arrangement (SBA) amounting to EUR 2.4 billion. The agreement is subject to approval by the IMF Executive Board and is expected to be considered by the Board in December 2022.

The authorities intend to use the financing that will become available during the first part of the arrangement and to treat the remaining access as precautionary. The IMF noted that after a strong recovery from the pandemic, Serbia is now facing challenges from the adverse global and regional environment, driven mainly by rising food and global energy prices. IMF noted that the higher energy import costs along with shortfalls in domestic electricity production, as well as weakening external demand are expected to widen the current account deficit to about 9 percent of GDP, both in 2022 and 2023. Despite the adverse global environment, financial sector stability has been maintained and the exchange rate has remained stable.

Finally, the IMF noted that the exposed weaknesses in Serbia's energy sector require complementary reforms to ensure energy security, put the energy sector on a sound financial footing and promote energy conservation. Meeting these goals will require further adjustment in energy tariffs as needed, while targeted support for vulnerable households should be expanded. The approach proposed is to restructure the energy sector, improve production and investment planning, and strengthen financial oversight and governance in the energy state-owned enterprises.

¹² Data in the macroeconomic section is from the: EU Commission, Directorate-General for Economic and Financial Affairs "EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) Western Balkans & Türkiye" for the 3rd quarter of 2022, Technical paper 060, October 2022.

On 12 October, the European Commission adopted the annual enlargement package. It stated that as regards the two economic criteria for EU membership, Serbia is between a moderate and a good level of preparation and has made some progress in developing a functioning market economy. Serbia is moderately prepared and has also made some progress in coping with competitive pressure and market forces within the EU.

With regard to the real sector, in the second quarter 2022, economic growth slightly decelerated to 3.9% y-o-y, down from 4.3% y-o-y in Q1. The still robust performance of domestic demand was only slightly offset by a negative contribution of net exports to GDP growth as a result of structurally higher imports, although the annual growth of exports exceeded the rise in imports in Q2. On the supply side, despite a slight overall deceleration, many sectors still recorded robust growth rates. Thus, wholesale and retail trade, transportation and storage, accommodation and food service activities, mining and manufacturing, accounted for the bulk of the overall annual increase in output in Q2 2022. Construction and agriculture were the only activities recording year-on-year declines.

Industrial production expanded by 3.7% y-o-y in June, decreased by 1.6% in July and returned to 0.3% y-o-y expansion in August.

In relation to the labour market, according to LFS data, the unemployment rate of the population aged 15 years and above decreased by 1.8 pps. q-o-q to 8.9% in Q2-2022. This was mainly the result of an increase in employment by 2.9% q-o-q, that was mitigated by a 0.9% q-o-q increase in the active population.

According to administrative data, in Q2-2022 employment increased by 1.0% q-o-q and 1.8% y-o-y. Annual employment growth remained positive in most sectors. Nominal net wages rose by 16.5% y-o-y in August 2022 while real net wages grew by 2.9% y-o-y.

In terms of the external sector, the first eight months of 2022, the current account deficit widened very substantially to EUR 2.8 billion compared to EUR 1.2 billion in the same period of 2021. Over the four quarters to June 2022, the deficit stood at 7.7% of GDP as compared to 4.3% in 2021 as a whole. Net FDI inflows decreased by 2.9% y-o-y in January-August covering 88.9% of the current account deficit.

Merchandise trade dynamics continued to be strong, with still high y-o-y rises in the EUR value of exports and imports, particularly driven by energy. Over the first eight months of 2022, exports of goods grew 28.2% y-o-y, while imports increased by 38.8%.

In relation to monetary developments, the annual consumer price inflation has continued to increase this year 2022 reaching 14.0% in September, thus largely exceeding the upper bound of the central bank's target tolerance band of 3% +/-1.5 pps. in twelve consecutive months. Inflation continued to be particularly driven by food (+20.8% in September) solid fuel prices (+49.6% in September) and fuels for personal transport equipment (20.3% in September). However, core inflation (excluding energy, food, alcohol and tobacco) also picked up further from 6.3% in May to 8.6% in September. The National Bank of Serbia (NBS) continued to gradually raise its key policy rate bringing it to 4.0%. The NBS remained an active participant on the foreign exchange market by buying a net EUR 480 million in September. Still, in the first nine months of the year the NBS sold a net EUR 0.4 billion to stabilise the dinar exchange rate. NBS foreign exchange reserves decreased slightly by 1.8% y-o-y to EUR 16.5 billion in September 2022, covering close to 5 months of imports of goods and services, driven by large FX inflows in Q3-2021, in particular from Eurobond issuances worth EUR 1.8 billion.

In the financial sector, in August, domestic claims of the banking sector increased by 6.6% y-o-y. The annual growth of credit to households recorded some slowdown to 8.7% in August, from 10.2% in May. The loan-to-deposit ratio stood at 89.8% at the end of July 2022. The ratio of non-performing loans decreased slightly to 3.3% in Q2-2022. As regards liquidity ratios, both the share of liquid assets to total assets and the share of liquid assets to total short-term liabilities continued to decrease in Q2.

In terms of fiscal developments, the period January-August 2022, total revenue growth remained strong, reaching 13.9% y-o-y. Total expenditure growth remained below the revenue increase and was driven by social transfers and purchases of goods and services while subsidies decreased by 29.8%. As a result, in January-August, the budget recorded a surplus of 0.4% of expected annual GDP, as compared to a deficit of 0.5% of GDP in the same period of 2021 and a 2022 deficit target of 3.0%. In August, central government

debt stood at 53.4% of the projected full-year GDP, down from 56.5% at end-2021, mainly as a result of high expected nominal GDP growth in 2022.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3. Public Financial Management

Existing PFM reform program is relevant and credible. The strategic framework for PFM reforms has been established by the PAR Strategy and the Public Financial Management Reform Program (PFMRP) and supplemented by the Programme for Improving Public Policy management and Regulatory Reform 2021-2025 and its Action Plan as well as the Programme for the Reform of the Local Self-Government System in the Public sector of Serbia 2021–2025 and its Action Plan.

Although it does not exist as a separate negotiating chapter, the areas of the PFM are significantly contained in seven negotiating chapters, five of which are open. The relevance of The PFMRP 2016-2020 and its contribution to the improvement of the PFM system was highlighted by the several external evaluations of PFM performance, including the SIGMA 2017 report, the European Commission Reports and the IMF reviews and the PEFA Report from 2021.

Since the beginning of the implementation of the PFMRP 2016-2020, significant progress has been made in all subsystems of the PFM. The process of program budgeting and medium-term planning has been improved following the introduction of program budgeting. The planning and monitoring of capital projects have been improved through a better ranking of capital investments with respect to priority objectives, by applying regulations and forms stipulated by the Regulation on Capital Projects. The coverage of indirect budget users in the budget execution system has been significantly expanded. The process of transformation of the Tax Administration and modernisation of the Customs Administration has been accelerated. Public debt management software developed at the end of 2018 contributed to overcome operational problems in the work of the Public Debt Administration. With regard to the Law on Public Procurement the legal and institutional frameworks are broadly aligned to EU *acquis*, but implementation is lacking. Implementation of the PIFC Strategy 2017-2020 has strengthened institutional and HR capacities in the area of financial management and control and internal audit. Progress has been made in combating irregularities and fraud in the management of EU funds and the capacities of the Budget Inspection has been strengthened. Improvements in parliamentary oversight of public finances and enhanced quality of State Audit Institution SAI audits also had an overall positive impact on transparency and accountability of the public sector.

Two major diagnostic assessments in the area of PFM were carried out in 2021– the PEFA assessment by the World Bank and the full PAR monitoring exercise, including the PFM area, by SIGMA.

The 2021 SIGMA Monitoring Report noted that the quality of PFM in Serbia has developed positively, with stronger performance applying to some of the budget management aspects and especially to the effectiveness of the external audit system. The overall area average increased from 2.8 in 2017 to 3.3 in 2021, and is one of the highest values in the Western Balkan region. While the quality of the annual budget process has been strengthened, progress in more advanced PFM reforms (medium-term budget planning and performance-based budgeting) is limited. The regulatory framework for internal control and internal audit is largely in place and the CHU has managed to considerably improve the operational framework for financial management and control. However, the functioning of internal control and the capacity of internal audit lag behind, with managerial accountability and delegation of decision making, reporting on irregularities, management of arrears and alignment of management and budget structures needing improvement. Some improvement is noted in public procurement, however the positive impact of the new Public Procurement Law was reduced by the adoption of special regulations and insufficient professional support to contracting authorities. The Public Procurement Office (PPO) plans to develop new key materials (guidelines, templates), with more focus on promoting performance-oriented practices. The new portal is good for ensuring transparency of the public

procurement process and supporting monitoring activities (except for contract management). A proper regulatory framework and institutional set-up for handling complaints are in place. The remedies system covers the classic and utilities sectors, as well as concessions/public-private partnerships (PPPs).

PEFA (2021) Report identifies the main strengths of the existing PFM system, related to the budget formulation, budget execution, debt management and external scrutiny. Budgets are reliable, with deviations of actual revenue and expenditure outturns compared to those budgeted remaining low to moderate. Budget documentation is deemed as comprehensive, whereas most of the key fiscal documents are transparent and publicly available. Budgets are executed within approved allocations, for which hard controls are embedded in the system for all beneficiaries integrated in the budget execution system. The PIFC functions within budget beneficiaries increasingly contribute to control and efficiency in public funds spending. Revenue administration and public procurement are progressively aligning with good practices. Implementation of the debt management strategy is properly monitored, and related reports are kept up to date and published monthly and quarterly. The SAI performs audits independently in line with the annual audit plan and international standards and all audit reports are published shortly after completion. The parliament's review of the annual budget is appropriately established, and the review of the government's final account has improved.

The same report identifies some issues in the current PFM system that are addressed by the new PFM RP 2021-2025 through further reforms and improvements. Linkage of the costing of public policy documents to the central government's budget is not always obvious and further efforts will be needed to materialize the expected benefits of improved planning coordination and budgeting of public policies under the Law on the planning system (LPS). While performance plans are prepared and reported by the budget beneficiaries, there is limited analysis and follow-up with regard to the reported performance. There is a need for the further development of public investment management and fiscal risks monitoring. The quality of the information reported in the Government's accounts is undermined without accrual standards being applied. Another area for further improvement is fiscal transparency legislation and implementation, as implied by the moderate scores that Serbia has recorded in the Open Budget Survey. In the Open Budget Survey 2021, Serbia rates 46 out of 100 budget transparency scores, which is above the global average score of 45, but still below the scores achieved by some of the regional peers.

The Serbian Government remained committed to the further improvement of the PFM system and used the above two assessments as inputs for the preparation of a new PFM Reform Programme 2021-2025 and Action Plan adopted in June 2021. In June 2022, the MoF presented the first implementation report of the new programme, for 2021, to stakeholders and representatives of civil society. One of the shortcomings of the PFM 2016-2020, the inconsistency and insufficient compliance with the PAR Strategy, was addressed by the new PFM for the period 2021-2025, which is fully harmonised with the umbrella PAR Strategy 2021-2030 and the Law on the Planning System. The PFM 2021-2025 with the accompanying action plan, including an assessment of the measures' costing and indicators for implementation monitoring, was prepared by the PFM Working Group and adopted in June 2021, following the public debate that lasted from 25 March to 15 April 2021. The objectives and priorities of the new PFM are based on the findings of the PEFA Report conducted by the World Bank, as well as on a series of internal analyses and consultations, including the analysis that the EU financed technical assistance provided during the drafting of the new PFM through the project "Support to the Ministry of Finance within the Sector reform Contract". The PFM 2021-2025 contains key reform measures within each specific objective, while certain PFM subsystems are updated with additional planning documents and operational plans, such as Tax Administration Transformation Program 2021-2025, Program of Public Procurement Development 2019-2023, Strategy for the Fight against Fraud and the Management of Irregularities in the Handling of European Union Funds, Strategic Plan of Budget Inspection 2021-2026, Strategic plan of the SAI 2019-2023, etc. The PFM policy measures have been planned to ensure compliance with the objectives of public administration development, as well as continuity in the implementation of reforms in the field of public financial management.

In 2021, progress was made in all areas covered by the Public Financial Management Reform Programme, as evidenced by the successful implementation of 11 of the 12 planned activities (a total of 6 measures and 12 activities) of the 2021-2025 PFM Action Plan with implementation deadline by the end of the fourth quarter 2021, whereby the rate of realisation of activities amounted to 92%.

The introduction of **Gender-Responsive Budgeting** (GRB) with the restructuring of revenues and expenditures to promote gender equality has further contributed to the transparency and effectiveness of the budget preparation. The GRB has been gradually developed since 2016 when gender-sensitive indicators were introduced to the program budgeting. The plan for the gradual introduction of GRB, including the number of programmes and the number of budget users, is adopted by the Minister in charge of finance no later than 31 March of the current year for the following year. In the past four years, progress has been made in monitoring environmental procurement policy and developing green public procurement. Efforts in the field of green procurement, including development of Guidelines for the improvement of green public procurement for contracting authorities and bidders, are in line with best practices for environmental policies and protection, which is one of the key areas in which it is necessary to make progress within the process of accession of Serbia to the EU.

In conclusion, the Public Financial Management Reform Program is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met. Detailed PFM Implementation Report was adopted by the Government on 24 April 2022, following a comprehensive public consultation procedure. PFM Policy Dialogue meeting was held in May 2022.

2.4.4. Transparency and Oversight of the Budget

Serbia recognises transparency and budget oversight as one of the key elements of good governance and systematically implements measures to further improve the situation in this area. The PAR and PFM strategic framework set out a series of reform measures whose implementation has contributed to greater transparency and budget oversight in terms of greater transparency of budget documentation, more effective process of budgeting, prioritisation and control of spending. While the European Commission report for Serbia for 2021 notes that there is no transparency roadmap, pre-budget statement or mid-year report produced or published. The Ministry of Finance does not publish the budget execution profile at the beginning of the year, preventing analysis of deviations from targets, there are some improvements, and the latest PEFA (2021) Report, recognises higher credibility and comprehensiveness of the budget documentation, compliance with the budget calendar and external audit coverage among the main improvements between PEFA assessments in 2015 and 2020. Sigma assesses that the transparency and comprehensiveness of budget reporting and scrutiny has improved, given greater parliamentary consideration to the annual financial statement. The 2021 Monitoring report finds that more detail could be given in the financial report, particularly on divergences from the original budget. The current system for in-year budget reporting does not show deviations in administrative expenditure headings and reports budget execution only on an economic classification basis.

Over the past years, significant improvements in transparency of budget planning have been achieved as a result of reform measures implementation, especially regarding the legislation and institutional setup. The Law on the Planning System was adopted in April 2018, which established the basis for better and more transparent coordination of public policy planning and budget planning. Credibility of macroeconomic projections has increased by the efforts of the MoF to introduce new models and analytical instruments and to improve data exchange. In 2019, the Decree on Capital Projects Management, developed with support from the World Bank and based on the Bank's framework, was adopted together with respective by-laws to guide implementation of the Decree in further detail. The Capital Investment Commission has been established to rank capital investments based on strategic relevance, adopt a list of capital projects and further develop capital investment management systems. However, its capacity to do so remains to be proven.

Budget documentation is comprehensive and this provides key fiscal information to the public. The Budget proposal is accordingly presented using all relevant budget classifications, namely economic, functional, organisational and program classifications. As part of the budget documentation, the MoF prepares the Explanatory Note that consists of the discussion related to the general part of the budget and the program information. Transparency of budget documents has been increased by introducing a legal obligation to publish programme information, as well as drafting and publishing the annual report on the performance of

budget programmes. In 2020 all budget users prepared and published a programme performance report. Although the quality of program information varies across institutions, the quality and structure provided by most of them adhere to the highest standards. Since the 2017 Law on Budget, project loans for financing large infrastructure projects were integrated into the budget, which makes it more comprehensive and transparent. Expenditure and revenue execution is reported in the course of the year only by economic and program classification, but the annual financial statements are presented along the full spectrum of prescribed classifications and are directly comparable to the budget. Comprehensive budget execution report containing detailed information on expenditure and revenue from all sources of all budgetary users is compiled at year-end based on the consolidated financial data.

Most of the key fiscal and budget reports are publicly available and timely published. The budget preparation takes place in accordance with the budget calendar defined in the Law on Budget System. The budget calendar is generally respected, with the exception of deadlines related to the Fiscal Strategy. The Law on the Budget is adopted in a timely fashion before the end of the fiscal year and budget users have enough time to complete the budget assessment. The budget proposal and enacted budget are accessible to the public and published on the websites of the Government of Serbia and the National Assembly on the day of adoption. The Ministry of Finance recognises the importance of the citizen budget as an instrument for presenting key budget information to the general public and regularly publishes the Citizen's Guide to the Budget. In-year budget execution reports are consolidated and published each month within the Public Finance Bulletin prepared by the MoF. Mid-year execution reports are prepared during the year but not published, while year-end government financial reports are published with a time delay (usually in the second half of the previous year). The transparency of public finances at the local level has also been improved by the "Open Budgets" platform, through which over 90 units of LSG have made data on the planned budget, revenues and expenditures publicly available to the citizens.

Legislative, institutional and procedural preconditions for effective budget oversight are in place. External audit and scrutiny in Serbia are discharged by the SAI and the National Assembly.

The quality of external audit and oversight is continuously improving. The SAI annually conducts a broad range of financial, regularity and performance audits, including audit of the Final Account of the RS. The European Commission Report on Serbia (2021)¹³ and the PEFA Report (2021) recognise the increased coverage and quality of the audit of public funds as well as the further improvement of the implementation of recommendations by audit subjects.

The last Open Budget Index report for Serbia refers to the process of budgeting for 2021 and provides an overview of quality and timeline of budget documentation produced during 2020. Regarding budget transparency score, Serbia rates 46 out of 100, below its highpoint 54 in 2010 but more than a global average score of 45. The OBI report acknowledged prompt publication and content of the budget proposal, enacted budget and in-year reports, but overall budget transparency score was downgraded due to belated publication of the Fiscal Strategy, mid-year reports prepared only for internal use and lack of year-end reporting. Since the last OBI survey year-end reports have been regularly produced and published, while the MoF made significant efforts to timely prepare Fiscal Strategy. Accordingly, it is expected that the next OB survey will bring improvement of the budget transparency score. The budget oversight is rated 54 out of 100, with audit oversight deemed adequate while strengthening the legislative oversight represents the major room for improvement in this area.

In conclusion, the entry point is met as the relevant budget documentation (Enacted Budget for 2022) has been published on 24 November 2021 at website of the National Assembly¹⁴

In conclusion, the relevant budget documentation has been published and the eligibility criterion met.

¹³ SWD(2021) 288 final

¹⁴ <http://www.parlament.gov.rs/upload/archive/files/cir/doc/zakoni/2021/1955-21%20za%20sajt.pdf>

3. DESCRIPTION OF THE ACTION

3.1. Intervention Logic

The Action consists of a State and Resilience Building Contract to mitigate the immediate socio-economic impact of the energy crisis and set the basis for building energy resilience in Serbia. The budget support contract contributes to the government's policy and fiscal space allowing for the implementation of measures to reduce the likelihood of energy poverty by supporting among others the vulnerable households and small and medium enterprises to ensure the continuous delivery of and access to essential services, at the same time ensuring that such measures do not lead to increase in energy consumption but are coupled with energy efficiency measures, and to support the long-term socio-economic recovery, energy security and energy transition of Serbia. The EU's approach will be accompanied by a robust policy dialogue. An Energy Crisis Roadmap will be adopted prior to the signature of this State and Resilience Building Contract and will contain the immediate, short, mid and long-term measures needed to ensure that Serbia can increase its energy security and efficiency, building on and in line with commitments Serbia has under the Energy Community law and in line with the Energy Community Decarbonisation roadmap.

Anticipating the main approach of the aforementioned Energy Crisis Roadmap, the overall objective (Impact) of this Action is to mitigate the immediate socio-economic impact of the energy crisis and set the basis for building energy resilience of Serbia.

The Specific Objectives (Outcomes) of this action are to:

1. Counteract the immediate and short term negative impacts of the energy crisis on Serbia, with a special focus on vulnerable customers (households and small and medium enterprises).
2. Continue to support Serbia's objective of green energy transition with a view to increase Serbia's security of supply and energy efficiency.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

Induced outputs:

1. Contributing to Outcome 1 (or Specific Objective 1): Targeted measures to support vulnerable customers (households and SMEs) are implemented.
2. Contributing to Outcome 2 (or Specific Objective 2): Regulatory steps to support Serbia's energy security and green energy transition are taken.

Direct outputs:

- 1.1. Support measures for SMEs and vulnerable households are implemented.
- 1.2. Activities to ensure security of supply conducted.
- 2.1. Steps for adoption of strategic framework conducive to reforms in the energy sector are taken.
- 2.2. Effective implementation of the Law on Renewable Energy.

The underlying intervention logic for this Action is that by supporting Serbia to alleviate the financial burden of the energy crisis, the Government will be able to take a series of targeted measures as per the upcoming Energy Crisis Roadmap in support in particular of the vulnerable customers (both households and SMEs). The implementation of the Energy Crisis Roadmap is crucial to counteract the negative impact of the energy crisis on Serbia in the short and mid-term period. At the same time, by supporting activities conducive to reforms in the energy sector, a series of crucial steps to support Serbia's long-term energy security and energy transition will be achieved. This is crucial for the long-term objectives of energy transformation and increasing energy efficiency, in line with the EU standards and policy.

In order to achieve the abovementioned outputs, a continuous policy dialogue with the relevant public authorities has been put in place. In addition, close co-ordination with international partners, business community and civil society organisations is of the highest importance. If the abovementioned outputs are

delivered and are combined with the Government's capacity to deliver on broader structural challenges and society's socio-economic expectations in a strategic and efficient manner and with the ability to maintain a stability oriented macroeconomic policy, the Action will help counteract the negative effects of the current energy crisis allowing it to maintain a steady course toward its long-term strategic goals.

3.2. Indicative Activities

Activities related to Induced Output 1.

1.1.1 Measures pertaining to the vulnerable social groups are implemented.

1.1.2. Measures pertaining to the SMEs are implemented.

1.1.3. Broadcasted awareness raising campaigns (on why and how to reduce consumption).

Activities related to Output 2:

2.1. Continuation of the realisation of gas interconnector with Bulgaria project.

2.2. Publication of the call for first round of auctions for new renewable capacities.

2.3. Policy documents are prepared for Government / national assembly adoption (National Energy and Climate Plan; Energy Sector Development Strategy and Energy balance for 2023).

2.4. Adoption of the Decree on the Balancing for Renewable Energy.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

The action will have the long term impacts related to energy efficiency, contributing to energy security. This will reduce harmful impact of the energy sector on environment.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G0. This implies that while the measures in the Energy Crisis Roadmap will be geared to the greatest extent possible to ensure that the most vulnerable customers (in particular in relation to female-led households and female-led businesses), the impact of the measures along gender-based lines may not be possible to calculate. However, in the planning of the National Energy and Climate Plan and the Energy Sector Development Strategy, considerations related to the most vulnerable households and industries, with a clear gender-based perspective, will be introduced.

In 2019, almost 10% of Serbian households had difficulties in keeping their homes adequately warm, while this was the case for 7.3% of households in the EU. Women are at greater risk of energy poverty and exposure to health and environmental energy-related hazards. To address energy poverty and its gender specific outcomes it is necessary to develop a set of tools and policy instruments to successfully integrate gender specific actions into the energy sector. Multiple barriers related to behaviour and financial capacities need to be removed in order to improve access to more efficient low cost and low maintenance appliances for most vulnerable groups, reducing, therefore, energy poverty wherever possible.

Human Rights

The European Commission's 2022 annual report for Serbia states that in the area of social inclusion and social protection, in 2020, 6.9 % of the population was considered to be living in absolute poverty. According to the latest survey on income and living conditions, the at-risk-of-poverty rate was 21.7 % in 2020 (while in the EU-27 this is 17.1 %) and the at-risk-of-poverty or social exclusion rate was 29.8 % (in the EU-27 it is 21.9

%). As in previous years, there is more poverty in rural than in urban areas. The action is geared at supporting the most vulnerable households in the period of crisis, and will work toward ensuring that the number of supported households does not decrease in view of fiscal constraints imposed by the economic and energy crisis.

Disability

The Decree on the status of energy vulnerable consumer was amended in Serbia in 2021, expanding the scope of households that fall under the criteria of vulnerable in the context of access to energy sources, and thereby have the right to the pricing under favourable conditions. Aside from economic poverty markers for households, vulnerable households are also defined in relation to health concerns, which include disability. Such households, aside from a cap on energy prices, also benefit from specific forms of protection in relation to continuous supply.

Democracy

The action will continue to encourage the involvement of the Civil society in shaping the energy policy through enhanced participation in the Energy Sector Working Group as well as in the process of consultation on the strategic acts.

Conflict sensitivity, peace and resilience

The action is designed to provide support for Serbia in the context of the current energy crisis with the aim to increase the resilience of society and economy.

3.4. Risks and Assumptions

Category	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
Internal	Inadequate capacity of the Government to implement efficiently short and medium term response measures to address the energy crisis.	M	H	Regular policy dialogue with the relevant public authorities, close co-ordination with international partners, business community.
External	Vulnerability to external shocks leading to higher risk of inequality among different social groups and possible economic deterioration in	L	M	Regular policy dialogue with IMF

	view of lower economic growth			
Internal	Lack of adequate capacities in the national authorities for the development of the long-term policy instruments.	L	M	Continuous support and accompaniment through capacity building activities planned under other IPA programmes.

External Assumptions

For Outcome 1. The domestic macroeconomic situation remains steady (there is no substantial change in the macroeconomic policy deriving from a large-scale economic and financial crisis), the impact of the current crisis is not deepened. No additional external shocks occur. The risk for public instability and potential political crisis due to increased cost of living remains low.

For Outcome 2. Political commitment to EU integration remains high.

For the induced outputs:

1.1. Sustainable national financing of the Energy Crisis Roadmap is secured.

1.2. Commitment to continuation of energy sector reform and increasing competitiveness of the energy sector continues.

For the direct outputs:

1.1.1. The present intervention will provide the fiscal space for Serbia to implement the measures to support vulnerable customers (households and SMEs).

1.1.2. Efficient inter-institutional cooperation, under the Ministry in charge of energy coordination and leadership is ensured.

3.5. Indicative Logical Framework Matrix

Results	Results chain	Indicators	Baselines (2021)	Targets by the end of the budget support contract (2023/4)	Sources of data
Indicative Impact of the policy	To mitigate the immediate socio-economic impact of the energy crisis and improve energy resilience in Serbia.	1. Number of days with planned power cuts due to restrictions arising from the energy crisis.	1. 0 days	1.0 days	Energy Community Country Implementation Report Energy Agency annual report

<p>Expected Outcomes of the policy</p>	<p>1. Counteract the immediate and short-term negative impact of the energy crisis on Serbia, with a special focus on vulnerable customers (households and SMEs).</p> <p>2. Continue to support Serbia's objective of green energy transition with steps towards increasing security of supply and energy efficiency.</p>	<p>1.1. Number of SMEs who benefited from favourable price under guaranteed electricity supply measure, ensuring business continuity.</p> <p>1.2 Number of vulnerable households who benefitted from crisis support measures</p> <p>2.1. Level of state-owned mandatory oil stocks (in number of days).</p> <p>2.2. Storage capacity on November 1st (i.e. beginning of the heating system).</p>	<p>1.1. 70.000 SMEs</p> <p>1.2. 68.000 (November 2022)</p> <p>2.1 35 days</p> <p>2.2. 80%</p>	<p>1.1.To maintain the existing number or increase above this number.</p> <p>1.2. Monthly number is the same or there is a decreased number of energy-wise vulnerable customers from the household category compared to the same month in the baseline year.</p> <p>2.1 37 days</p> <p>2.2 80%</p>	<p>Energy Community Country Implementation Report</p> <p>Energy Agency annual report</p>
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Induced Outputs	<p>1. Targeted measures to support vulnerable customers (households and SMEs) are put in place.</p> <p>2. Regulatory steps to support Serbia's energy security and energy transition are taken.</p>	<p>1.1. Degree of implementation of the Energy Crisis Roadmap.</p> <p>2.1. National Energy and Climate Plan adopted by Government.</p> <p>2.2. Energy Sector Development Strategy adopted by National Assembly.</p> <p>2.3. Energy balance for 2023 adopted by the Government.</p>	<p>1.1.0%</p> <p>2.1. Not adopted</p> <p>2.2. Not adopted</p> <p>2.3. Not adopted</p>	<p>1.1.100%</p> <p>2.1. Adopted</p> <p>2.2. Adopted</p> <p>2.3. Adopted</p>	<p>1.1..Report of the Ministry in charge of energy on the Energy Action Plan.</p> <p>2.1 -2.3. Official Gazette of Serbia.</p>
Direct Outputs	<p>1.1. Support measures for SMEs and vulnerable households are implemented.</p> <p>1.2. Activities to ensure security of supply conducted.</p> <p>2.1. Steps for adoption of strategic framework conducive to reforms in the energy sector is initiated.</p> <p>2.2. Effective implementation of the Law on Renewable Energy</p>	<p>1.1.1. The eligibility and methodology criteria for the identification of beneficiaries (households and SMEs) is implemented. .</p> <p>1.1.2. Frequency of broadcasted awareness raising campaigns (on why and how to reduce consumption)</p> <p>1.2.1. Realisation of gas interconnector with Bulgaria project.</p> <p>1.2.2. Publication of the call for first round of auctions for new renewable capacities.</p> <p>2.1. Policy documents are prepared for Government / national assembly adoption</p> <p>2.2. Adoption of Decree on Balancing for Renewable Energy</p>	<p>1.1.1. Criteria is currently being implemented according to previous Decree for households.</p> <p>1.1.2. None</p> <p>1.2.1. % of the project that has been implemented</p> <p>1.2.2. None</p> <p>2.1. None</p> <p>2.2. Not yet adopted.</p>	<p>1.1.1. Criteria fully implemented for households and SMEs allowing expected target reach.</p> <p>1.1.2. Campaign implemented in accordance with broadcasting plan.</p> <p>1.2.1.% of the Project that has been implemented</p> <p>1.2.2. Yes</p> <p>2.1. Three documents adopted</p> <p>2.2. Decree is adopted.</p>	<p>Report of the Ministry in charge of energy on the Energy Action Plan.</p> <p>Ministry of Energy website. Report to Energy Community Secretariat</p>

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Serbia.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

The Programme will be subject to direct management by the European Union Delegation to Serbia.

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for budget support is EUR 165 000 000. No complementary support is foreseen.

This amount is based on the commitment of Serbia to allocate national budget resources to mitigate the socio-economic impact of the energy crisis generated by Russian war of aggression against Ukraine. This amount is informed by a comprehensive discussion with the stakeholders and by the preparation of a National Action Plan to address the consequences of the energy crisis, particularly on vulnerable households and small and medium enterprises.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Energy Crisis Roadmap to address the consequences of the socio-economic impact of the energy crisis.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

The budget support component consists of two fixed tranches. Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Serbia Dinar will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3.	165 000 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	will be covered by another Decision
Communication and visibility – cf. section 6	will be covered by another Decision
Contingencies	N.A.
Totals	165 000 000

4.5. Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action. The indicative authorities of Serbia involved in the implementation of the Action will include: the Ministry in charge of Mining and Energy, the Energy Agency of Serbia, the Public Enterprise for Transport, Storage, Distribution and Trade of Natural Gas "Srbijagas", the Public Enterprise Electric Power Industry of Serbia (EPS) and the Ministry of Finance.

The dialogue platforms and level of attendance and the public policy priorities in the context of this action:

- DRM and long term social protection to respond to this crisis situations;
- Robust PFM and budget transparency and accountability of crisis response measures (including the role of the audit institution);
- Development of the National Energy and Climate Change Plans, meeting the targets under the Energy Community Platform, long term resilience and transformation of the energy sector in Serbia.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous on-going process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference Energy Roadmaplist.

The Commission may undertake additional monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews). Monitoring exercises will be carried out as prescribed by the DG NEAR guidelines on linking planning/programming, monitoring and evaluation.

Roles and responsibilities for data collection, analysis and monitoring:

The Government, under the leadership of the Ministry of Energy, will coordinate and monitor the development of the relevant activities under this SRBC and the underlying policies (Energy Crisis Roadmap), including its possible necessary reviews. The responsible institution for each activity will be in charge of implementing the Energy Roadmap specified outcomes, outputs, Key Performance Indicators (KPIs) and budgets based on the evidence-based policy and the budgeting principles of the government of Serbia. Close monitoring of the situation will be performed in coordination with the IMF and other partners.

The statistical and monitoring systems collected through the institutions related to the Ministry of Energy as well as the quality of official data in the policy field covered have been assessed.

5.2. Evaluation

Having regard to the nature of the action, a(n) ex-post evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the Action has been designed to provide support in order to alleviate the impact of the energy crisis.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the beneficiary country at least three months in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [*Communicating and raising EU visibility: Guidance for external actions*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

Communication and visibility are considered a critical element to the success of this budget support intervention in particular, and to the overall reform process in the energy sector in general. The Action shall be aimed at strengthening general public awareness about interventions financed and the objectives pursued through EU funding in the energy and other sectors. The activities shall aim at highlighting to the relevant target audiences the added value and impact of the EU's financial support and will promote transparency and accountability on the use of funds.

The effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured.

Implementing partners shall keep the Commission and concerned EU Delegation fully informed of the planning and implementation of specific visibility and communication activities before work starts.

Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall Action to the relevant monitoring committees.

Given that a similar action is financed simultaneously in each beneficiary in the Western Balkans, joint visibility and communication activities may be undertaken. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and will be coordinated with the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.

This programme is part of the EUR one billion Energy Support Package, which comprises also direct support to the six IPA beneficiaries through the Western Balkans Investment Framework for energy diversification, energy transition and energy security. Visibility and communication activities should be pursued strategically also in this context and with the aim to promote the Package as a whole at regional and national level.

7. SUSTAINABILITY

This action responds to immediate crisis needs aimed at supporting vulnerable customers throughout the winter of 2022-2023. Nevertheless, this action also seeks to support long term energy resilience through the preparation of a National Energy and Climate Plans and adherence to the targets therein beyond 2023 as part of the wider efforts to achieve energy resilience and clean energy transition.