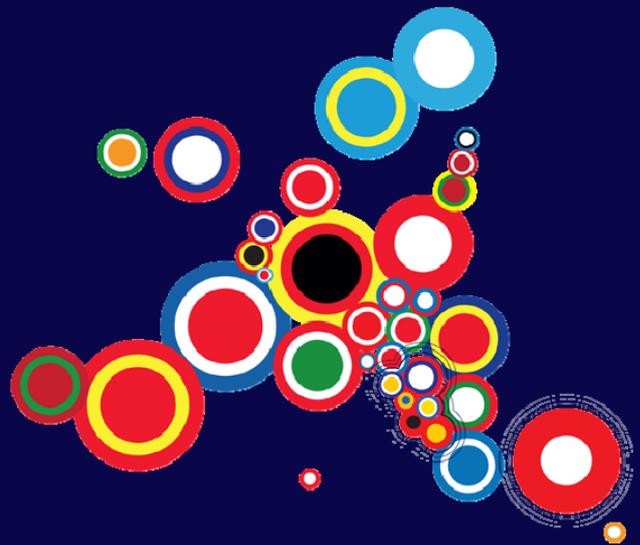




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

SERBIA

**EU SUPPORT TO THE
ENERGY SECTOR**



Action summary

The key focus of this Action is to contribute to a more reliable and safe security of energy supply. The Action entails the construction of bi-directional gas interconnector between Serbia and Bulgaria, a major energy infrastructure project aimed at increasing security of energy supply and the capacity for wholesale trade of natural gas at regional level.

Action Identification	
Action Programme Title	Annual Action Programme for Serbia for the year 2017
Action Title	EU Support to the Energy Sector
Action ID	IPA 2017/040-500.6/Serbia/EU Support to the Energy Sector
Sector Information	
IPA II Sector	Environment, climate change and energy
DAC Sector	23010
Budget	
Total cost	85,526,550 EUR
EU contribution	49,600,000 EUR
Budget line(s)	22 02 01 02
Management and Implementation	
Management mode	Indirect management
<i>Indirect management:</i> National authority or other entrusted entity	Central Finance and Contracting Unit/Department (CFCU)
Implementation responsibilities	Ministry of Mining and Energy
Location	
Zone benefiting from the action	Republic of Serbia
Specific implementation area(s)	NA.
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December 2018
Final date for concluding delegation agreements under indirect management	At the latest by 31 December 2018
Final date for concluding procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation
Final date for operational implementation	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement
Policy objectives / Markers (DAC form)	

General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
Aid to environment	<input type="checkbox"/>	X	<input type="checkbox"/>
Gender equality (including Women In Development)	X	<input type="checkbox"/>	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input type="checkbox"/>	X	<input type="checkbox"/>
Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

Alignment of Serbia's legislation to the Community Energy *Acquis*

Internal energy market

The Serbian Energy Sector Development Strategy for the period up to 2025 with projections up to 2030 (Official Journal 101/2015) is strongly influenced by obligations set by the EU Accession process and Agreements signed by Serbia, in particular the Stabilization and Association Agreement and the Energy Community Treaty (2005). Serbian authorities have invested large efforts in aligning Serbia's legislation with the EU energy *Acquis*. In the last two years, two systemic laws were adopted which set the necessary legislative framework in the energy sector for further advancing in the approximation to EU Energy *Acquis*: Energy law and the Law on Efficient Use of Energy. The Energy Law adopted on 29 December 2014 ("Official Gazette" No. 145/14) transposes the majority of provisions of the **EU Third Energy Package** in the electricity and gas sector, i.e. it stipulates the adoption of bylaws that shall transpose all provisions of the Third Energy Package. Thus, Serbia is the first country among the Energy Community (EC) Contracting Parties to fulfil its obligation and align with the Third Energy Package pursuant to the Decision of Energy Community Ministerial Council. Having adapted its legislation to the third package, Serbia is expected to continue with further market opening, as well as to guarantee competitive safeguards to ensure that customers wishing to switch suppliers can do so. The completion of the **energy market liberalisation**, opening it to new entrants, is apparent in the electricity market and urgently needed in the gas market, in particular, as mentioned above, with a view to drafting, adoption and implementation of necessary bylaws to the Energy Law to implement provisions of the 3rd internal energy market package. Additionally, the rights of new market entrants to supply those customers need to be ensured.

Relating to market development in the natural gas sector, in November 2014, the Energy Agency of the Republic of Serbia (AERS) gave consent on the Compliance Programme issued by one of the two Transport Systems Operators (TSO) in Serbia, *Jugorosgaz - Transport doo Nis*, setting out measures to be taken to ensure that discriminatory conduct is excluded. The Rules of Operation of the Transportation System of Natural Gas, issued by TSO, Public Company "Srbijagas", were approved by AERS in August 2013, and the Rules of the other TSO in Serbia, *Jugorosgaz - Transport doo Nis*, in January 2015. In December 2014, the majority of 34 natural gas distribution system operators submitted distribution network codes to the Regulatory Agency for approval. Until 1 June 2015, the Agency approved 32 submitted network codes, contributing thereby to the full natural gas market opening, based on non-discriminatory third party access to natural gas distribution networks.

Security of supply

Serbia is currently implementing Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks. The Republic of Serbia is concerned with securing a reliable, safe and sustainable energy supply for gas.

Natural gas is supplied to the Republic of Serbia from the Russian Federation and is transported via gas pipeline through Ukraine and Hungary to enter the Republic of Serbia at Horgoš (Serbian – Hungarian border). At present, the supply of the gas transmission system of the Republic of Serbia is conducted exclusively from that direction and one entry point. Serbia's dependence on natural gas imported from Russia through Ukraine and Hungary exceeds 80% of total demand. High energy dependence renders Serbia's economy more vulnerable to fuel price shocks, thus affecting the country's prospects for socioeconomic growth. New interconnections are necessary to meet the objective of increased security of gas supply, the connection to other gas pipeline systems in the region and the further development of gas distribution networks. Security of gas supply is related to the possibility of diversifying the supply sources and routes including interconnections with neighbouring countries thus fostering regional energy integration. The main precondition for implementation of the European standards and regulations, as well as for opening and establishing the regional market, is the appropriate gas pipeline

infrastructure connecting the national gas pipeline system with those of the neighbouring countries. The region of South East Europe is a part of the primary strategic “South” Corridor for enabling new natural gas supplies for Europe and therefore there are intense on-going preparations towards realization of major supply projects for Europe, such as the Trans-Anatolian pipeline, Trans Adriatic Pipeline, Turkish stream, etc. The proposed construction of the Serbia-Bulgaria gas interconnector will connect the Serbian gas pipeline system to the diversified Southern Corridor routes and sources of supply and as an interconnection project contribute to trans-European energy networks.

OUTLINE OF IPA II ASSISTANCE

The intended impact of IPA II assistance in the energy sector is to secure reliable and safe energy supply. In summary, the aim of IPA II assistance is to facilitate the development of strategically relevant energy infrastructure identified in the Single Project Pipeline in the energy sector. In order to contribute to this overall objective it is necessary to increase the volume of natural gas wholesale trading. This specific outcome is to be achieved through the diversification of sources/directions of gas supply (Result 1). The implementation of this strategically relevant energy infrastructure project is expected to be supported by means of the construction of the gas interconnection Serbia-Bulgaria. The main beneficiary in the implementation of activity deriving from the Result of this Action is the Public Enterprise “Srbijagas”.

Institutional setting

The sector lead institution (SLI) for the energy sector is the Ministry in charge of energy. It has the main responsibility of leading the relevant sector institutions in the process of elaborating, implementing, monitoring/reporting on sector policies.

Apart from the Ministry in charge of energy, which is the beneficiary for a set of activities, the other beneficiary of the Action is the Public Enterprise (PE) “Srbijagas”. The Main scope of activities of “Srbijagas” includes natural gas transportation, distribution, storage and trade.

On 19 November 2015, the Government adopted a Conclusion adopting the Report on the obligation of the Republic of Serbia with respect to the implementation of Directive 2009/73/EC concerning common rules for the internal market in natural gas from the third energy package. This Conclusion also relates to the need for companies “Transportgas Serbia” d.o.o., Novi Sad, and “Distribucijagas Srbija” d.o.o, Novi Sad, to perform activities of common interest, transmission and transmission system operation, i.e. the distribution and distribution system operation, under the license of JP Srbijagas Novi Sad, to perform these energy activities until expiry of its validity. This practically means that “Transportgas Serbia” doo, Novi Sad, after 19 November, performs its activities as a licensed entity.

The PE “Srbijagas” supplies all retail suppliers active in the country with gas at a uniform wholesale price. It procures natural gas under long-term contracts from the Russian company *Gazprom*, the main supplier to the Serbian market, through the vertically integrated company *Yugorosgaz*. There are two existing transmission system operators in Serbia, “Transportgas Srbija” and “Yugorosgaz - Transport Niš” and “Transportgas Srbija” being the major transmission system operator.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

Indicative Strategy Paper – Serbia, 2014-2020

The objective of EU assistance to the energy sector is to increase energy efficiency and competitiveness of the Serbian energy market, to improve security of supply (also in the regional context), and develop renewable energy sources. From these, the following result is targeted with the proposed intervention:

- Improved security of supply in electricity generation, transmission and gas transport enabling regional market integration, including compliance with the Oil stocks Directive.

Priority investments from the national single project pipeline will be supported, especially in areas such as gas transport. Support will be provided for further harmonisation of the Serbian energy legislation to meet the Energy Community Treaty and the *acquis* obligations. Finally, in order to increase the competitiveness of the Serbian energy market and to integrate it into the European energy markets, support will be provided for the unbundling of public entities in the energy sector.

The European Partnership (EP)

The energy policy is one of the sector policies of the “European Partnership with Serbia, including Kosovo, cited in the COUNCIL DECISION of 18 February 2008, on the principles, priorities and conditions contained in the European Partnership with Serbia. The key priorities for the energy policy are:

- Fulfil the obligations arising from the Energy Community Treaty as regards the full implementation of the *Acquis* on the internal gas and electricity market and on cross border exchanges in electricity
- Amend and implement the Energy Law and ensure smooth functioning of the independent energy regulatory agency.
- Continue environmental audits on energy plants, addressing the worst polluters, ensure unbundling with a view to restructuring and opening up the market and make further progress towards a regional energy market, in particular by improving interconnectivity with neighbouring countries.
- Strengthen the administrative capacity within the relevant ministries.

Stabilisation and Association Agreement (SAA)

The SAA of 2011, as far as energy is concerned, confirms the key points of the EP 2008, but places the Energy Community at the basis of the integration of Serbia in EU energy markets. Title VIII, Cooperation policies, Article 109 – Energy, states that cooperation shall focus on priority areas related to the Community *Acquis* in the field of energy and be based on the Treaty establishing the Energy Community, with a view to the gradual integration of Serbia into Europe's energy markets. Such cooperation may include:

- a) the formulation and planning of energy policy, including modernisation of infrastructure;
- b) improvement and diversification of supply and improvement of access to the energy market, including facilitation of transit, transmission and distribution and restoration of energy interconnections of regional importance with neighbouring countries and promotion of energy saving, energy efficiency, renewable energy;
- c) the formulation of the framework conditions for restructuring of energy companies and cooperation between undertakings.

Specifically, this Action addresses priorities of the SAA supporting the energy policy and energy efficiency as follows: regional electricity and gas interconnections, promotion of energy saving, energy efficiency and renewable energy.

Europe 2020 Strategy

- “**Resource efficient Europe**” is one of the seven flagship initiatives as part of the Europe 2020 Strategy aiming to deliver smart, inclusive and sustainable growth. This flagship initiative aims to create a framework for policies to support the shift towards a resource-efficient and low-carbon economy which will help the EU - inter alia - to ensure security of supply of essential resources. Among the initiatives foreseen to deliver on the resource-efficient Europe flagship is the “**Low-carbon economy 2050 roadmap**”, aimed at reducing greenhouse gas emissions by 80 to 95% by 2050, while improving the EU's energy security and promoting sustainable growth and jobs. The Energy 2020 strategy for competitive, sustainable and secure energy focuses on five priorities: achieving an energy-efficient Europe; building a truly pan-European integrated energy market; empowering consumers and achieving

the highest level of safety and security; extending Europe's leadership in energy technology and innovation; and strengthening the external dimension of the EU energy market.

SEE 2020 Strategy

Some of the key Strategy actions in the sector of 'Energy' addressed by this Action are:

- Develop and implement measures to increase efficient use of energy by achieving a minimum 9% of the energy saving target by 2018, in line with its commitments to the Energy Community, through the adoption of Energy Services Directive in 2009.
- Put in place measures to achieve the national share of renewable energy in gross final energy consumption by 2020, in line with the targets adopted in 2012, through the Renewable Energy Directive.
- Develop instruments to create an investment-friendly climate and stimulate energy infrastructure development.
- Create a well-functioning SEE energy market that would provide affordable but cost-reflective and reliable supplies; remove energy subsidies and replace them with safety nets for vulnerable consumers.
- Complement the ongoing regional energy cooperation.

Energy Strategy of the Energy Community

The Energy Community Treaty (ECT) covers the relevant fields of energy, environment, and competition of the EU legislation. The Energy Community deals with electricity, natural gas, and petroleum products. Its post-2014 objectives include: liberalization of the market for all customers (post January 2015) and limitation of emissions of certain pollutants into the air from large combustion plants (post December 2017). ECT sets the objectives of creating a competitive integrated Regional energy market, attracting investments in the energy sector. The objectives are presented in a regional dimension:

- To create a stable regulatory and market framework capable of attracting investment in gas networks, power generation, and transmission and distribution networks, so that all Parties have access to the stable and continuous energy supply that is essential for economic development and social stability;
- To create a single regulatory space for trade in Network Energy that is necessary to match the geographic extent of the concerned product markets;
- To enhance the security of supply of the single regulatory space by providing a stable investment climate in which connections to Caspian, North African and Middle East gas reserves can be developed, and indigenous sources of energy such as natural gas, coal and hydropower can be exploited;
- To improve the environmental situation in relation to Network Energy and related energy efficiency, foster the use of renewable energy, and set out the conditions for energy trade in the single regulatory space.

The Energy Community also proposed infrastructure priority projects that comply with the general and specific criteria and has a cross-border dimension: Projects of Energy Community Interest (PECI list). The Action here proposed is on the list of Projects of Energy Community Interest.

Rio Conventions

The 1992 Rio Conference on Environment and Development addressed the global environment challenges and sustainable development. A scoring system of values (the so called "Rio markers") is used to indicate policy objectives of the Rio Conventions in relation to proposed activity.

Specifically, this Action addresses the policy objectives of the Rio Conventions. The proposed activity (Sector code 233 – Energy generation, non-renewable sources) has a significant objective (score "1")

as mitigation measure. The activity is qualified in this way because the new or existing power/heating plants will be able to switch from coal or heavy oil to natural gas, which is a lower emitting fuel. The security of natural gas supply is of crucial importance for gas powered plants. The new interconnector would increase security of gas supply, provide conditions for the development of natural gas market in the region and increase competition.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

Financing of the natural gas pipeline from Serbia to the Bulgarian border was originally foreseen for financing from IPA 2013 funds. The level of maturity and political willingness to support the project undermined the implementation of activities. Consequently, the project was cancelled and the allocated funds withdrawn. The lesson learned from this previous attempt to finance the project is that certain maturity of project preparation activities should be provided before final decision is made. Political support from both countries should be secured by legal commitment to do so. The milestones with deadlines for implementation must be clearly identified and easy to monitor.

The availability of financial resources for future investments and maintenance and operation of the established systems and infrastructure built with IPA assistance is an important factor for sustainability, and there are a number of cases where its provision is problematic¹. The SIDA Report on “Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia”² recommends that the strengthening of institutions responsible for policy, regulatory oversight and implementation (or reorganization, in the case of energy market liberalization) should be synchronized with infrastructure development, given that the two are inextricably linked. The major challenges for the next phase of ODA will be to advance with the upgrading of environmental and energy infrastructure in a systematic, sequenced, and coordinated way. Another recommendation from the evaluation states that in order to be financially viable on a long-term basis, the pre-conditions for these infrastructure investments will be: measurement and charging systems that reflect both usage (reducing over-consumption and supply inefficiencies) and full cost recovery; the break-up of state monopolies in energy to inject competition into pricing; and a social welfare policy that subsidizes poorer households to prevent the effects of sustainable pricing from driving up fuel and other forms of poverty. As stated in the Western Balkans Investment Framework (WBIF) Final Evaluation Report³, the increased interest in blending funds by the European Commission is due to a number of potential benefits and increases the potential development impact of the EC’s official development assistance. The blending of funds is expected to increase efficiency, coordination, ownership and visibility of EU development finances. Lessons that can be learned from the WBIF project identification, programming, preparation and blending and implementation process are:

- A major success factor of WBIF, particularly in response to the Connectivity Agenda, will depend on the quality and volume of individual WB project pipelines. Concentration of effort and financial support on priority investments increases effectiveness.
- The quality of single project pipelines needs to be carefully maintained.
- Early involvement of WB Ministries of Finance (through National Investment Committees - NICs) is crucial for prioritising projects that are really needed and economically viable.
- Improved communication with bilateral donors would help regain their trust in the WBIF.

Within the region, Serbia was acknowledged as having developed a good practice in co-ordination of development assistance.

Specific arguments in favour of blending funds are:

- WBIF resulting leverage, is largely effective; maintained or increased financial contributions from bilateral donors provide clear added value

¹ Ecorys: IPA - Interim evaluation and meta-evaluation of IPA assistance - Country Programme interim Evaluation Report, March 2013

² Evaluation of Effectiveness and Efficiency of Development Assistance to the Republic of Serbia per Sector (April 2013), SIDA

³ November, 2015

- Investments (direct and project preparation) follow appropriate technical standards and international agreements.
- Some instances of weak ownership/low levels of involvement of beneficiaries in project identification and preparation stages should be addressed through NICs.
- Private investment is more likely to occur in energy efficiency but other energy sector investments rely predominantly on EC, IFIs, bilateral donors, bilateral agreements and national (state) funding.
- Administrative and management arrangements and processes are fairly efficient but demanding in terms of resources (staffing) and time.

Links to some other larger infrastructure projects financed from IPA EU funds and other development assistance

Several of larger infrastructure projects were financed from IPA EU funds and other development assistance. In the area of internal energy market and security of gas supply the following projects were financed/implemented: “Technical assistance to Srbijagas” (IPA 2007), “Follow up technical assistance to Srbijagas” (IPA 2010) and “Procurement of Srbijagas Gas Management SCADA System” (IPA 2013).

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To diversify and secure more reliable and sustainable energy supply Increased competition in natural gas market wholesale trading.	Share of natural gas in primary energy supply (energy mix) increased.	Annual Energy balance report from the Ministry of Mining and Energy NREAP Report Energy Community Report	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Diversification of gas supply sources and routes in line with the EU Third Energy Package. Gas pipeline capacity allocation auctions conducted in full compliance with EU acquis including EU network codes.	Interconnectors capacity in energy units (Bm ³ /year) Volume gas of traded (domestic and international in (Bm ³ /year)	Energy Agency of Republic of Serbia (AERS) Energy balance issued by the Ministry of Mining and Energy Ministry in charge of energy PE "Srbijagas" reports	
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result 1: Gas Interconnection Serbia-Bulgaria fully operational on the Serbian side	Number of gas interconnections Number of gas entry points	AERS report Energy balance issued by the Ministry of Mining and Energy	The assumptions are that the construction of the Bulgarian section of the interconnector will proceed progressively in line with the joint time schedule and be finalised by 2021, Yugorosgaz as a pipeline owner and operator will enable interconnection between the IBS and its domestic Serbian network in line with the EU acquis and Serbia's Energy Community obligations, progress on gas sector reforms leading to the IBS operating under EU rules will be achieved, and full

			support of municipal leadership and involved authorities for an efficient project implementation will be provided. Furthermore, expropriation and permitting procedures are carried out timely as planned, co-financing is provided and tendering and contracting procedures are done in an efficient manner.
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DESCRIPTION OF ACTIVITIES

Activity 1.1: Construction of Gas Interconnection Niš - Dimitrovgrad

The construction of the bi-directional gas transmission pipeline between natural gas transmission systems of Serbia and Bulgaria is a necessity for a stable gas supply in a very broad geographical area that includes not only Serbia and Bulgaria, but also Greece and other countries in the Balkan region. The construction of the interconnection between the Serbian and Bulgarian gas networks will have the following direct and immediate benefits:

- Increased availability of gas supply for all consumers.
- Increased quality of gas supply by increasing the security of gas supply to existing and new customers.
- Assuring that future gas supply can keep up with increasing demand. This will have the effect of encouraging investments and developing the economy due to better supplies and the elimination of restrictions.
- Ensure diversification of supplies, boosting competition on the market, in line with the EU Third Energy Package rules

This Action provides the Bulgarian partner with access to gas storages via integration of existing and future gas storage capacities (UGS Banatski Dvor and the future UGS Banatski Itebej) into the Regional network.

The key project activities are the following: tendering for a service contract and contracting an Engineer according to the FIDIC Red book; procurement of pipes, equipment, and construction works (all in one open tendering procedure). The construction of the pipeline is divided in three sections of an estimated length of 35 km per section (total length of pipeline is cca 108 km). Two main activities of pipelines construction are the excavating of the trench and the welding of pipes. Keeping track of the results of these activities shall be performed by means of obligatory documents in accordance with the Law on planning and construction. Technical assistance is necessary for the preparation of the tender documentation for the service contract - FIDIC Engineer and for the above mentioned works contract, and will be ensured through unallocated EU funds or the WBIF-ConnectA project or other sources of financing. .

RISKS

The assumptions related to the proposed objective and result are generally linked to the national policy level and include continued political support to reforms in energy policy, continued government commitment to the fulfilment of EU integration priorities in public administration reform generally and specifically in the energy sector. The assumptions identified include the full commitment of the sector lead institution and improved cooperation and coordination between relevant institutions. The assumptions are that the construction of the Bulgarian section of the interconnector will proceed progressively in line with the joint time schedule and be finalised by 2021, Yurogaz as a pipeline owner and operator will enable interconnection between the IBS and its domestic Serbian network in line with the EU acquis and Serbia's Energy Community obligations, progress on gas sector reforms leading to the IBS operating under EU rules will be achieved, and full support of municipal leadership and involved authorities for an efficient project implementation will be provided. Furthermore, expropriation and permitting procedures are carried out timely as planned, co-financing is provided and tendering and contracting procedures are done in an efficient manner. A critical risk for this project is the agreement on the financing structure of the project and agreements between national institutions, the EU and the IFI, having in mind that PE "Srbijagas" have indicated that the financing structure for this pipeline is likely to require a basic element of grant funding due to the fact that this pipeline is strategically most significant in the framework of the regional energy security perspective of South East Europe. We can also identify possible issues in terms of land acquisition, ensuring permits as well as the procurement process.

CONDITIONS FOR IMPLEMENTATION

The following conditions need to be met to fully achieve the project's objectives:

- the pipeline capacity offered provides firm access to the Serbian gas transmission system in line with EU rules and without any preferential rights given to any network user or transmission system operator;
- Srbijagas is fully unbundled and certified in line with EU rules;
- no network user (alone or together with any of its successors or affiliates including any companies that are not legally and structurally separated from the network user and companies that are not maintained, managed and operated in an independent manner from the respective network user) shall benefit from more than 50% of the technical capacity at the interconnection point.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The institutional arrangements for the implementation of the Action under Indirect management include the following institutions:

- **Sector Lead Institution (SLI) – The Ministry in charge of energy** –Final beneficiary of two contracts and responsible for coordination, monitoring and reporting on the achievement of the planned result 1.
- **Public Enterprise “Srbijagas”**- The end recipient (s) of the support foreseen under the planned result 1 . By Conclusion of Government of the Republic of Serbia, PE “Srbijagas” has been entrusted with all mandatory activities concerning the designs, permits and placing the pipeline into service. Public Enterprise “Srbijagas” main scope of activities includes natural gas, storage and trade. On November 19, 2015, the Government adopted the Conclusion adopting the Report on the obligation of the Republic of Serbia in respect of the implementation of Directive 2009/73/ EC concerning common rules for the internal market in natural gas from the third energy package and on the need for the companies "Transportgas Srbija" d.o.o. Novi Sad and "Distribucijagas Srbija" d.o.o. Novi Sad to perform activities of common interest, transmission and transmission system operation, i.e. distribution and distribution system operation, under the license of JP Srbijagas Novi Sad to perform these energy activities until the expiry of its validity. This practically means that companies "Transportgas Serbia" d.o.o. Novi Sad perform their activities as licensed entities after 19 November. JP “Srbijagas” supplies all of the retail suppliers active in the country with gas at a uniform wholesale price. *Srbijagas* procures natural gas under long-term contracts from the Russian company *Gazprom*, the main supplier to the Serbian market, through the vertically integrated company *Yugorosgaz*. In Serbia there are two existing transmission system operators, *Transportgas Srbija* and *Yugorosgaz-Transport Niš* and *Transportgas Srbija* being the major transmission system operator.
- **NIPAC/NIPAC TS – Ministry of European Integration (MEI)** – programming function as well as monitoring function has been institutionalised by the establishment of a monitoring system within Sectoral Monitoring Committees (SMCs) and the IPA Monitoring Committee (IPA MC)
- **Contracting Authority (CA - CFCU)** – within the Ministry of Finance
- **National Fund (NF)** – within the Ministry of Finance
- **Audit Authority (AA)**
- **EU Delegation** – ex-ante control of EU funds

With regard to the energy sector, the **Sector Lead Institution (SLI)** has the overall responsibility for the management of the implementation of the Action and delivering of energy sector objectives. Inter-institutional coordination in the implementation and monitoring will be ensured through the following structures:

The **Steering Committee** (SC) will be organised in line with detailed provisions of the respective procedures under indirect management of IPA II. The SC is responsible to ensure a smooth implementation of the Action through regular review of the sector plan progress.

The energy sector SC's will be chaired by the Senior Programme Officer (SPO) of the Ministry in charge of energy, with the representative of the CFCU and the EU Delegation and will monitor progress, examine and approve annual Action respective outputs.

The Sector Working Group (SWG) for the energy sector was established to further strengthen inter-institutional cooperation and is responsible to ensure efficient coordination of activities related to programming of EU funds, to propose relevant measures and activities in the energy sector. The SWG for the energy sector includes the following institutions: Ministry in charge of Energy as lead national institution, Ministry of European Integration as coordinator of international development assistance, ministries in charge of Environment, finance, Construction, transport and infrastructure, Standing Conference of Towns and Municipalities. Apart from the national authorities, the members of the SWG are representatives of international development community with the KfW (Germany) as the lead (supporting) donor, the EU Delegation, other donors and IFIs as well as CSO representatives as required.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

This Action Document under IPA II assistance will be implemented through Indirect management mode.

The Activities under Result 1 will be implemented through one (1) service contract and one (1) works contract. The IPA contribution is 49,600,000 EUR. Total cost of the project is 85,526,550 EUR. Indicative national contribution is envisaged in the amount of 35,926,550 EUR. provided

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

Monitoring of the progress in implementation of actions will be done in accordance with the respective rules and procedures for monitoring under indirect management mode. Manuals of procedures include detailed procedure for monitoring on different levels with clear responsibilities and deadlines in the monitoring process.

The IPA II monitoring process is organized and led by the NIPAC/Ministry of European Integration (MEI) as a NIPAC TS/BCPME. The National IPA Coordinator (NIPAC) is the main interlocutor between the Serbian Government and the EC, regarding strategic planning, co-ordination of programming, monitoring of implementation, evaluation and reporting of the overall IPA assistance, and is responsible for ensuring the linkage of IPA assistance to the EU accession process. The NIPAC monitors the process of programming, preparation and implementation, as well as the sustainability and effects of actions aiming to improve these processes, timely identification, remediation and alleviation of potential problems and issues in the process of programming and implementation of Actions.

Through the support of the NIPAC TS/BCPME (MEIO), the NIPAC must establish the monitoring procedure and roles and responsibilities of the institutions in the monitoring process. Furthermore, with the support of NIPAC TS/BCPME (MEI), the NIPAC is responsible to establish, chair and organise the work of the IPA Monitoring Committee (IPA – MC) and submits to the EC the annual and final reports on the overall IPA implementation. In addition, the NIPAC establishes, chairs and organises the work of the IPA Sectorial Monitoring Committees (SMCs), prepares regular monitoring reports for the Government and the EC, based on the reports drawn up by the final beneficiaries responsible for implementation; reports on the formulation and implementation of Actions, monitors the fulfilment of preconditions for the initiation of public procurement procedures and organises the process of evaluation of IPA support. The NIPAC prepares regular reports for the IPA Monitoring Committee including information on the status and progress in the

implementation of all relevant actions. In addition, the NIPAC prepares reports to be examined by the NAP Sector Monitoring Committees. The monitoring process envisages the participation of various stakeholders such as the EC/EUD, NIPAC/NIPAC TS/BCPME, final beneficiaries, CFCU, NF, AA and other institutions as well as the civil society organisations.

Monitoring the progress of the implementation of the Result/Contracts of the Action that will be implemented under the Indirect Management Mode will be done in accordance with the rules and procedures for monitoring under indirect management.

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. Should no mid-term or final evaluation be foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either by its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

INDICATOR MEASUREMENT

Indicator	Baseline (value + year) (2)	Target 2020 (3)	Final Target (year) (4)	Source of information
CSP indicator (impact/outcome)...(1)				
<ul style="list-style-type: none"> Quality of electricity supply (WEF) 	4.6 (WEF Report 2015/2016)	5		World Economic Forum
Outcome level				
Interconnectors capacity in energy units (Bm ³ /year)	2015: 5,238	2020 3.0	2022: 7,038	AERS, Energy balance issued by the Ministry of Mining and Energy
Volume gas of traded (domestic and international in energy units (Bm ³ /year)	2016: 2.4		2022: 3.0	PE “Srbijagas” reports
Results level				
Number of gas interconnections	2016: 2	2020: 3	2022: 3	AERS report
Number of gas entry points	2016: 1	2020: 2	2022: 2	Energy balance issued by the Ministry of Mining and Energy

5. SECTOR APPROACH ASSESSMENT

Apart from the new overarching energy sector strategy, specific sub-sector APs are developed, such as the second NEEAP (National Energy Efficiency Action Plan) and NREAP (National Renewable Energy Action Plan). The Serbian Energy Sector development strategy for the period up to 2025 with the projections up to 2030 represents the main instrument for defining the Serbian energy policy and is strongly influenced by obligations set by the EU Accession process and Agreements signed by Serbia, in particular the Stabilization and Association Agreement and the Energy Community Treaty (2005). Strategic priorities of the energy development have been defined along key principles: improving security of supply, development of energy market and a comprehensive transition towards sustainable energy. Thus, it covers all relevant subsector policies, which are also in the focus and complemented by the IPA II actions. Since the Serbian Energy Sector development strategy for the period up to 2025 with the projections up to 2030 was adopted in December 2015, the Ministry in charge for energy prepared a Program for Energy Strategy implementation for a period of six years, in accordance with articles 5 and 6 of the Energy Law (Official Journal 145/14).

Sector cooperation is organised and led by the Ministry of Energy (SLI) and is focused on coordinating relevant sector institutions in strategic and regulatory framework drafting processes. Regular consultations and obtaining inputs are initiated and organised by the Ministry, whereas the sector institutions, based on their mandates, equally participates in strategic management, implementation and monitoring of sector (sub)-policies, strategies and legislation enforcement. Those institutions include: PE EPS, PE Srbijagas, Provincial Secretariat for Energy and Mineral Resources in AP Vojvodina, local self-governments etc. When it comes to inter-institutional relations and cooperation in the sector, the Ministry of Energy consults and includes members of stakeholder groups into specific sector working groups and thus enables the inter-agency cooperation on relevant policy issues/investments.

This is especially true for the preparation of policy documents such as is the new Energy Sector Development Strategy for the period up to 2025 with the projections up to 2030 or the National Renewable Energy Action Plan. The Ministry capacities are involved in coordinating relevant sector institutions in identification of candidate projects for the Single Project Pipeline. The sector coordination is also ensured through the National Investment Committee (NIC), which was established in November 2014 to provide a single government focal point for the planning of preparation and implementation of national infrastructure investments. The NIC serves as a platform for identifying and promoting synergies between various sources of financing (EU funds, IFI loans, and donor grant funds etc.), as well as National budget resources. When it comes to Sector Donor coordination, this is ensured through the Energy Sector Working Group (SWG), including representatives from all relevant institutions in the energy sector and representatives from the donor community who actively support the sector. Sector coordination is additionally provided by the Energy EU Negotiation Group on Chapter 15 which is led by the Ministry.

The Sector Performance Assessment Framework (PAF) in Energy is based on two key mechanisms: (i) system of indicators which have been developed to accompany the document: “National Priorities for International Assistance for period 2014-17 with 2020 projections (NAD)” and (ii) regular review of the implementation of strategies and action plans relevant for the sector which is reported to the Government and the Energy Community Secretariat. Budgeting according to the programmatic classification started in 2015. Key financing gaps for the implementation of the Strategy/APs clearly relate to investments in the sector, given that the needs are huge and the available budgetary resources more than limited. In 2014, there was no scope for investments. The degree of implementation of the sector line item budget for 2014 was around 80%. Resources spent on staff costs amounted to 93%. There are no sources of revenue which could enhance the Ministry's budget.

Sector monitoring system

The public administration of Serbia is not equipped with general methodology, guidelines, manuals and IT systems for monitoring and evaluation. The existing methodologies, guidelines, manuals and IT systems have been developed on a case-by-case basis. Evaluation is done ad hoc, without methodology, there is no internal capacity to carry out evaluations, and this refers both to sector and sub sector level. The reporting mechanism on the sub-sector level is not harmonised and there is no reporting mechanism on the sectoral level. For the time being, the sector PAF is based on three key mechanisms: (i) system of indicators in the “National Priorities for International Assistance for period 2014-17 with 2020 projections (NAD)”,

indicators defined in the Employment and Social Reform Programme (ESRP) and (iii) periodical reviews of the implementation of strategies and action plans relevant for the sector. The Sector strategy (ESRP) contains outcome and result based indicators, baseline and target values. Indicators are in line with the sub-sector policy objectives. However, the capacities for defining proper (RACER) indicators, and carrying out of the monitoring and evaluation tasks on the sector level should be strengthened.

6. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Gender mainstreaming requires as a first step the collection of relevant data about how men and women consider their energy needs and what actions they perceive as most beneficial. It will be ensured that same opportunities are available to women as well as men. As the national strategy for improved status of women and gender equality promotion (2009-2015) obliges for equal participation of women and men in decision making at all levels and in all policy areas, greater involvement of women in energy policy decision-making processes will be promoted. Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, age or sexual orientation. All contractors shall be requested to provide non-discriminate participation of men and women during the implementation phase. Throughout project implementation, there will be no discrimination on the grounds of health status, race, sex, sexual orientation, mother tongue, religion, political or other opinion, national or social origin, birth or other status. Equal opportunities for all will be ensured during project implementation.

EQUAL OPPORTUNITIES

The Action will take into account the legislation in Serbia concerning the working conditions and equal opportunities for women and men, for people with disabilities and for people belonging to minorities and other vulnerable groups as well as the improvement of the level of protection of the health and safety of workers, taking as a reference the level of protection existing in the EU. The results to be achieved within this Action are neutral when it comes to equal opportunities and beneficial for both sexes.

MINORITIES AND VULNERABLE GROUPS

Equal opportunities regardless of sex, racial or ethnic origin, religion or belief, disabilities, age or sexual orientation are embedded in all strategic documents of the energy sector. The labour market policy follows these principles as well. The link between reliable energy supply and minorities and vulnerable groups is reflected primarily in the impact on the health and quality of living in Serbia. The general tendency is to work simultaneously on minimising the consequences of energy poverty and promoting activities aimed at its prevention with the ultimate goal of ensuring security of supply and decreased adverse effects of energy production on Serbia's population. Activities mentioned under this Action will not result in evictions of sub-standardized settlement or interfere with living conditions of its inhabitants.

ENGAGEMENT WITH CIVIL SOCIETY

CSOs participation in the preparation of the NAD and this Action has been secured through the SECO mechanism where representatives of CSO have been invited to provide their inputs into the NAD which sets the strategic framework for the development of this Action. These inputs were carefully examined and integrated where appropriate in the "National priorities for international assistance" (NAD). Feedback regarding the submitted comments was prepared by SEIO. A formal public complaints procedure is established by the law during the phases of adoptions of the Spatial plan and the Study of Environmental Impact Assessment. A public complaints procedure will be also established during the construction phase. If any complaints are received, they will be recorded, acknowledged in writing and investigated in a timely manner. If justified, corrective action will be taken immediately.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

According to the Law on Environmental Protection, which had adopted the requirements regarding the EU environmental acquis, a Study of environmental impact assessment will be carried out. In the Study of environmental impact assessment all possible impact on environment during the implementation phase, as well as during exploitation will be analysed in detail. Therefore, at first all of the construction and operation activities will be identified by reviewing the technical resources of the project. In the construction phase, activities will have been evaluated as relevant to the environmental factors (such as deforestation, biodiversity loss, soil erosion, air pollution, water contamination). In this phase, activities such as: embankment and excavation show the greatest negative impact on environment. Construction work is widely acknowledged by environmental protection authorities as a temporary event. Therefore, in keeping with recognized best practice, a large majority of the monitoring effort will be via walk-round visual inspections, which will be carried out by the Environment Manager, or delegated staff members, to ensure that all of the preventative and corrective measures or mitigation measures described in the Study of Environmental Impact Assessment will be applied. Proper implementation of the formal waste management system, described in the Study of environmental impact assessment, will be also applied. In the Operation phase, a formal and systematic environmental monitoring programme will be essential to ensure that the mitigation measures derived from the environmental assessment are properly adopted and implemented, to minimise or avoid adverse effects on the environment. This Action will therefore include all of the preventative and corrective measures or mitigation measures described in the Study of Environmental Impact Assessment. All potential hazards presented by the pipeline during operations will have been identified by a formal hazard identification process. The risk assessment covers the probabilities and consequences of the potential pipeline failure modes. Qualitative and quantitative techniques will be used during the risk assessment process, and where possible, measures will be integrated into the design to reduce the risks to acceptable levels.

There are also positive impacts on environmental factors to justify this project. It is European Union policy to gradually reduce usage of fossil fuels, because they are the main man-made source of carbon dioxide, the gas believed to be, overwhelmingly, the largest contributor to the much-reported global warming effect. Nevertheless, such fuels must clearly remain the major source of energy for the foreseeable future. Of the three forms of fossil fuels (natural gas, oil and coal), natural gas produces the least amount of carbon dioxide per unit of energy generated.

Apart from the study of environmental impact assessment, the Action coordinates corresponding activities on relevant disaster resilience aspects documented in the flood prone areas with the Public Investment Management Office (PIMO) of the Republic of Serbia.

7. SUSTAINABILITY

Sustainability of the assistance is dependent on the continued capacity utilisation and maintenance of gas transport infrastructure after donor funding has ceased. The factors determining sustainability are future gas flows and the overall financing model for PE “Srbijagas” overall transport system. Sustainability of achieved results on long-term basis in this project is expected as high considering potential diversification of source of gas supply, as well as due to the fact that PE “Srbijagas” has very well established managerial, operational and maintenance systems confirmed in practice.

8. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

This Action will significantly contribute to the promotion of one of the most important European values - human rights, equality and solidarity and its implementation through the supported actions at the local level. Contribution to the inclusive growth as one of the key pillars of Europe 2020 and the significance of social and territorial cohesion will be promoted during the Action implementation.

Targeted communication activities will be designated to ensure the visibility of support, of beneficiaries, achievements and the fact of EU funding. The Action may include multiple public events and awareness raising activities, such as kick-off and closing ceremonies, events at the occasion of signing contracts, etc. All the events shall be organized in a manner to promote joint visibility features of the Action and to inform the broader audience on objectives and achievements of the Action by timely involvement of the media and via broadcasting through appropriate communication channels. The EU Delegation to the Republic of Serbia will be fully informed of the planning and implementation of the specific visibility and communication activities.

All relevant project data, information, announcements will be published on the Final Beneficiary web site while the Implementing partner shall create a website dedicated to implementation of this Action.

In terms of concrete outputs, the construction of the bi-directional gas transmission pipeline between natural gas transmission systems of Serbia and Bulgaria has very high visibility and communication potential, and is of interest to citizens. A strong visibility component is required, to secure the use of positive aspects of the intervention for the EU but also, given potential challenges to this project, to ensure that any negative fallout is managed properly.