

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 9 June 2022¹

SERBIA

SERBIAN SOLID WASTE PROGRAMME

Commitment of Tranche II

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concern the declaration of commitment of the second tranche of the Bank’s loan for the Serbian Solid Waste Programme Project.

The Project was approved by the Board on 15 December 2021 and signed on 17 December 2021. The facility consists of a sovereign loan to the Republic of Serbia (the “**Borrower**”) in the amount of up to EUR 75 million to finance the development of modern solid waste management systems in Serbia across several solid waste (“**SW**”) regions. The loan consists of two tranches: (i) the first tranche of up to EUR 50 million, committed at signing, and (ii) the second uncommitted tranche of up to EUR 25 million, which was subject to Board approval prior to commitment. The Ministry of Environmental Protection (the “**MoEP**”) is responsible for implementing the Project, which is co-financed with the French Development Agency.

Tranche 2 will finance the construction of regional solid waste management systems in Sremska Mitrovica and Pirot SW regions and a multi-regional primary sorting system within several SW regions, which have an environmental category B classification. The Project aims to increase waste collection and promote in-household source separation and a circular economy of recyclable waste.

The expected transition impact of the Project is derived from the Green quality. The Project, including both tranches, is expected to reduce CO2 emission by around 282,433 tonnes per year (72 per cent), and increase the recycled waste amount [REDACTED]. The Project is also expected to improve the regional SW companies in terms of governance and operations, to ensure sustainability of the investments. The Project includes policy dialogue to support the improvement of Serbia’s SW management system at both the national and regional levels. The Bank will support the MoEP and regional SW companies in preparing Regional Waste Management Plans and covenanted the adoption of those by no later than two years after signing the loan agreement.

TC support for this operation has been provided by the EBRD Shareholder Special Fund and High Impact Partnership on Climate Action (HIPCA).

I am satisfied that the operation is consistent with the Bank’s Strategy for Serbia, the Municipal and Environmental Infrastructure Sector Strategy, the Bank’s Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve, on a no-objection basis, the proposed commitment substantially on the terms of the attached report.

Odile Renaud-Basso

BOARD DECISION SHEET

SERBIA - Serbian Solid Waste Programme - DTM 52642 – Commitment of the second tranche	
Transaction / Board Decision	Board approval [REDACTED] on a no-objection basis is sought to commit the second tranche of up to EUR 25 million of the Bank's loan to the Republic of Serbia (the " Borrower ") to finance (i) the construction of RWMSs in Sremska Mitrovica and Pirot SW regions, (ii) a multi-regional primary sorting system within several SW regions, and (iii) the technical assistance including the PIU support and works supervision.
Client	The Client is the Republic of Serbia, represented by the Ministry of Finance (" MoF ") and the Ministry of Environmental Protection (the " MoEP ") which would be in charge of project implementation.
Main Elements of the Proposal	<p><u>Transition impact:</u> Primary Quality is Green: The Project, including both phases, is expected to reduce annual GHG emissions by around 282,433 tonnes CO₂e per year and increase waste recycled [REDACTED]. The Project qualifies for two uplifts based on: (i) significant environmental benefits resulting in the reduction of GHG emissions beyond quantitative physical scale thresholds of 110,000 tonnes per year; and (ii) Regional Waste Management Plans related policy dialogue.</p> <p><u>Additionality</u> – (i) Financing structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions; (ii) Risk mitigation - EBRD helps the client to mitigate carbon transition risks and take climate action; (iii) Standard-setting - Client seeks EBRD expertise on best international procurement standards; and gender additionality by promoting equal opportunities for women, (iv) Knowledge, innovation and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client.</p> <p><u>Sound banking</u> – The transaction is a sovereign loan.</p>
Key Risks	Implementation risk due to the MoEP's lack of experience with EBRD's Procurement Policies and Rules (" PP&R ") and will be mitigated through the appointment of procurement and project implementation unit (" PIU ") consultancy support and an independent supervision engineer.
Strategic Fit Summary	The Project is in line with the Bank's Strategy for Serbia, Green Economy Transition Approach 2021-2025, the Municipal and Environmental Infrastructure Sector Strategy, and the Strategy for the Promotion of Gender Equality.

1. Background

On 15 December 2021, the Board approved a sovereign loan of up to EUR 75 million to the Republic of Serbia for financing the development of regional waste management systems (“**RWMS**”) across several SW regions in the country. Each RWMS will be managed and operated by a public regional utility company (“**RUC**”). The total project cost of EUR 150 million will be co-financed with the French Development Agency (“**AFD**”) [REDACTED].

On 17 December 2021, the Bank signed the Loan Agreement with the Borrower. The loan was split into two tranches due to different stages of technical readiness of each SW region. Tranche 1 of up to EUR 50 million was committed at signing, while the decision on the commitment of Tranche 2 of up to EUR 25 million was subject to approval by the Board upon completion of separate due diligence, either on a no-objection basis if Environmental Category B is confirmed or full approval in case of Category A.

Tranche 1 proceeds will be used for financing the construction of four RWMSs in Kalenic, Sombor, Duboko and Nova Varos SW regions and related technical consultancy services for supporting the project implementation and works supervision (“**Phase 1**”). Tranche 2 proceeds will be used for financing the construction of two RWMS in Pirot and Sremska Mitrovica SW regions and a multi-regional primary sorting system (i.e. purchase of containers and waste collection vehicles) within several SW regions and related technical consultancy services for supporting the project implementation and works supervision (“**Phase 2**”).

In addition to the investment component, the EBRD and AFD will support the authorities through loan-funded technical assistance (budget of EUR 2 million) with the development of Regional Waste Management Plans, which will regulate topics including the waste collection, recovery of materials, waste-to-energy, protecting environment and health by preventing and reducing negative impacts related to waste production and management; and improving waste separation at source, among others. The policy dialogue is designed to have a systemic and long-term impact, affect all stakeholders, and result in structural change.

2. Project Implementation Update

On 4 February 2022, the Serbian Parliament ratified the Loan Agreement and the EBRD loan was declared Effective as of 4 April 2022. [REDACTED]. The Serbian Parliament adopted the National Waste Management Programme 2022-2031 (“**NWMP**”) on 27 January 2022 [REDACTED]. Furthermore, the Government of Serbia also adopted the Action Plan for the implementation of the NWMP on 4 May 2022. These are crucial steps to develop an integrated solid waste management system in Serbia, and additionally it has established the basis of the Bank’s proposed policy work.

2.1. Phase 1 Implementation

In line with the Procurement Plan, the tender for the Project Implementation Unit (“**PIU**”) support consultant for Phase 1 (loan-funded) was launched on 14 February 2022, and the evaluation of proposals is currently ongoing. Following the evaluation and contracting phase, the contract with the PIU support consultant is expected to be signed [REDACTED].

AFD engaged external technical consultants [REDACTED] (the “**Consultants**”), to help the Client with project preparation (technical, environmental and social due diligence for both

phases) and implementation. The Consultants will manage the procurement process by (i) evaluating proposals for the PIU support consultant for Phase 1, (ii) preparing tendering documents for the procurement of consultants in charge of technical design and preparation of tender documents for the goods and works under Phase 1, and (iii) guiding the PIU during the tendering process (evaluation, preparation of bidding documents, notification letters, etc.) of the previous task.

In addition, the Consultants will support the Client in strategy development and capacity building activities. In this regard, the Consultants will (i) develop a strategic roadmap for the newly established RUC in Sombor SW region (i.e. develop mandate/vision/objectives, stakeholders mapping, and organizational set up), and (ii) prepare a high-level assessment of the capacity building needs of the RUCs and municipalities involved in both Phase 1 and Phase 2.

2.2. Phase 2 Preparation

The Consultants have prepared the pre-feasibility study of four additional SW regions for Phase 2. In coordination with the Bank, the MoEP has considered various factors, including the environmental categorization and technical readiness of the subprojects and determined the scope of Phase 2. Accordingly, Phase 2 consists of Pirot and Sremska Mitrovica SW regions and a multi-regional primary sorting system covering several SW regions. Following the decision of the MoEP, the Consultants have prepared the feasibility studies (technical, economic, environmental and social) of the selected SW regions in Phase 2.

3. Environmental and Social Update

The sub-projects in the second tranche have been categorised B and the Consultants have carried out independent environmental and social appraisals of the Pirot and Sremska Mitrovica landfill sites. Stakeholder Engagement Plans (“SEP”) and Environmental and Social Action Plans (“ESAP”) have been prepared and will be agreed with the client prior to signing of Phase 2. Each of the ESAPs include actions to establish environmental, social and labour management systems for the new landfills and to develop and implement construction and operation management plans.

The Project will upgrade a significant part of Serbia’s waste management systems in line with EU standards and in support of the National Waste Management Programme 2022-2031. It will establish EU-compliant landfills, close unsanitary cells, introduce landfill gas collection and improve waste sorting and recycling. The Project will also finance primary sorting systems that will support source separation and recycling of waste streams. The regions for these systems have not yet been chosen. Environmental and social impacts associated with waste sorting facilities are not expected to be significant but ESD will review the proposals once finalised and update the ESAP, if necessary.

No land acquisition or resettlement of households is required for the landfill sites. As with Phase 1, implementation of the Project will lead to the closure of numerous unmanaged dump sites. This will have significant environmental benefits [REDACTED]. This approach is consistent with the first tranche and the livelihood restoration related component of the Project will follow a longer term horizon in line with the project implementation schedule.

EBRD will monitor implementation of environmental and social commitments through annual reporting by the client, the PIU Consultants reports and periodic independent audits.

4. Transition Impact / Risk to Transition Impact

The requested approval has a neutral impact on the Project's transition impact potential and risk to transition impact.

The expected transition impact of the Project is derived from the Green quality. The Project, including both phases, is expected to reduce CO2 emission by around 282,433 tonnes per year (72 per cent), and increase recycled waste amount [REDACTED]. The Project is also expected to result in an improvement of the regional SW companies in terms of governance and operations, in order to ensure sustainability of the investments. The Project includes policy dialogue to support improvement of Serbia's SW management system at both the national and regional level. The Bank will support the MoEP and regional SW companies in preparing Regional Waste Management Plans.

Due to the early stage of the Project implementation, no transition impact monitoring benchmarks have been achieved yet. However, the TI indicators and benchmarks for the Programme have been refined for the Tranche 2 to reflect additional investments, and are presented in the Annex 5.

5. Integrity

No new integrity issues were identified since the project approval by the Board in December 2021. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project. The project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES

ANNEX 1: PROJECT DESCRIPTION

Sub-Project 1: Sremska Mitrovica RWMS

The Sremska Mitrovica RWMS is located in western Serbia and consists of 5 municipalities² which have a combined population of 290,210 (2021), producing 94,973 tonne/year of municipal solid waste (2020). A RWMC is already built and consists of an operational landfill³ and a sorting plant for recyclable waste (built but not yet operational). RUC “Srem-Macva”, founded by Sremska Mitrovica and Sabac municipalities in 2011, operates the RWMC.

The Project will finance (i) the implementation of source-separation of packaging waste for the City of Ruma, (ii) the closure of the landfill cell-1, (iii) the remediation of former dumpsite and construction of landfill cell-2, (iv) the regional landfill upgrade works including leachate system, leachate pools, recirculation system, hydro network and tank, and landfill access road, and (v) the construction of a mobile water treatment plant, (vi) biogas collection and treatment system, (vii) the acquisition of a shredder for bulky, green waste and rubble, and (viii) the purchase of landfill mobile equipment and radioactivity detector.

There is currently no systemized source-separation of recyclable waste in the relevant municipalities. Municipal waste collection is performed by 5 different municipal PUCs in each of the municipalities. Within the RWMS, there is only one transfer station currently operating, in Sabac, for the exclusive use of Sabac.

Prior to the construction and operation of the Srem-Mačva Regional landfill, the municipality of Sremska Mitrovica disposed of its waste in the municipal unsanitary landfill, “Jarak” within the current Regional Centre. This unsanitary landfill is closed and its remediation and transformation into a sanitary cell is part of the Project. [REDACTED].

Sub-Project 2: Pirot RWMS

The Pirot RWMS consists of 4 municipalities⁴ which have a combined population of 81,919 (2021), producing 25,963 tonne/year of municipal solid waste (2020). A RWMC is already built and consists of an operational landfill⁵ and a sorting plant for recyclable waste (currently in construction). RUC “Regionalna Deponija Pirot”, founded in 2010, operates the RWMC.

The Project will finance (i) the construction of a composting plant at the RWMC to treat the organic waste stream, green waste and sludge, (ii) the closure of the landfill’s cell-1, (iii) the construction of cell-2, (iv) the construction of a biogas collection and treatment (flaring) system, and (v) the upgrade of the waste storage area (against rain/weather).

There is currently no systemized source-separation of recyclable waste in the relevant municipalities. The Pirot RWMS will implement systemized municipal collection of source-separation of recyclable waste through the IPA Program, for two waste streams: “wet” and “dry” waste. Municipal solid waste collection is performed by 4 separate municipal PUCs in each of the municipalities. Currently, only mixed municipal waste bins and containers are collected and all emptied in the Pirot RWMC. There are no transfer stations in the Pirot RWMS;

² Sremska Mitrovica, Sabac, Sid, Bogatic and Ruma.

³ Landfill is not fully “sanitary” because the site includes impermeable synthetic bottomliners, the leachate is collected and treated, the disposal of waste is controlled and monitored; however, the biogas is not treated.

⁴ Babusnica, Bela Palanka, Dimitrovgrad and Pirot.

⁵ Landfill is not fully “sanitary” because the site includes impermeable synthetic bottomliners, the leachate is collected and treated, the disposal of waste is controlled and monitored; however, the biogas is not treated.

all municipalities are relatively close to the RWMC, or generate too little waste to justify a transfer station. [REDACTED].

Sub-Project 3: Multi-regional Primary Sorting System

The objective of the new investments is the procurement of containers and vehicles for the municipal collection, to implement primary selection of waste.

The Consultants prepared a prefeasibility study for 4 regions: Lapovo (5 municipalities, population of 67,915 in 2021), Kikinda (5 municipalities, population of 134,144 in 2021), Jagodina (5 municipalities, population of 225,441 in 2021) and Leskovac (9 municipalities, population of 267,841 in 2021).

RWMCs are already in place in these 4 RWMS, with, at least an operational landfill. The Ministry will determine the exact solid waste regions where the primary sorting system will be implemented. [REDACTED].

ANNEX 2: SERBIA SOVEREIGN DEBT ASSESSMENT

The economy is growing robustly. Following a mild 0.9 per cent GDP contraction in 2020, GDP grew by 7.4 per cent in 2021, outperforming the expectations. This reflects strong expansion of exports and industry due to rebound of the Euro Area, Serbia's main trading partner, robust household consumption and continued investment impulse supported by the sizeable public investments. Inflation increased from 1.6 per cent in 2020 to 4.0 per cent in 2021, outside the target band of 3 per cent +/- 1.5 per cent, and further to 9.1 per cent y/y in March largely on the back of the rising energy and food prices. The National Bank of Serbia increased the policy rates by 50 bps to 1.5 per cent in April. FDI recovered in 2021 to above the 2019 level, which bodes well for future growth.

Economic activity is expected to moderate towards its long-term potential. GDP growth is forecasted at 3.3 per cent in 2022 (EBRD REP March 2022), down by one percentage point from the November forecast on the back of the economic impact of the war on Ukraine. Serbia has limited direct links to Russia in terms of trade (6-10 per cent of imports and 5 per cent of exports in recent years), but it is exposed to rising inflation, expected slowdown of growth in European markets, Serbia's main export destination, and generally a rise in uncertainty. A new long-term contract on gas delivery, fully sourced from Russia under government contract with preferential prices, is expected to be signed in mid-2022. Should the conditions change, Serbia might become more vulnerable to market prices.

Public debt is increasing... Despite a significant fall since 2015, Serbia's public debt remained above the legally binding limit (45 per cent of GDP) prior to the pandemic. The government implemented large aid packages in 2020-21 to cushion the impact and support the recovery, increasing budget deficit significantly (to 8 per cent of GDP in 2020 and an estimated 5 per cent in 2021). To help finance the fiscal gap, Serbia stepped up domestic and external borrowing, raising around EUR 3 billion through two Eurobond issuances in 2020 and EUR 2.75 billion in 2021 via three additional Eurobonds. The issuances in 2021 include first ever 7-year green bond at a record low coupon rate of 1.0 per cent and a 15-year Eurobond, the longest maturity Serbia has issued so far. Receipts from the green bond will be used to finance the infrastructure and green agenda projects. On the back of repeated access to external markets and increase in the SDR allocation by the IMF, the international reserves of the National Bank of Serbia increased by 25 per cent compared to end-2020 to the record level of EUR 16.8 billion in September, before coming down to EUR 15.6 billion in February 2022. Public debt was at 57 per cent of GDP at end-2021 and is expected to fall below 50 per cent of GDP by 2024 (IMF WEO April 2022) assuming timely return to fiscal discipline and absence of major external shocks. The support measures introduced in the light of the energy crisis and food price increases might lead to widening of the fiscal deficit in 2022 beyond the planned 3 per cent of GDP. The Government has introduced price caps for electricity, petrol and diesel as well as basic foodstuffs.

[REDACTED]. The main risks to the debt sustainability relate to absence of further structural fiscal adjustment and unfavourable internal and external developments due to different shocks, such as the one related to Covid-19. [REDACTED]. Continued engagement with the IMF helps uphold the confidence. After completing a non-financial agreement with the IMF (a 30-month Policy Coordination Instrument) in January 2021, Serbian authorities signed another one in June 2021. The new 30-month PCI aims at supporting a faster economic recovery, macroeconomic and financial stability and structural reforms. Board approved the first programme review in December 2021 and the IMF team completed the visit on the second

review in March 2022. Serbia is rated at BB+ (Positive) by S&P, Ba2 (Stable) by Moody's and BB+ (Stable) by Fitch.

Further structural adjustment is needed in order to preserve the fiscal sustainability. This requires public sector reforms, including continuing “right-sizing” and strengthening capacities of the public and tax administration, improving public investment management, as well as restructuring and privatizing otherwise unviable SOEs. [REDACTED].

ANNEX 4: GET RATIONALE AND IMPACTS

The Project will promote resource efficiency by introducing sustainable waste management practices through the construction of sanitary landfills designed to EU standards, and implementation of material recovery facilities, composting plants and a primary sorting system.

The Project is expected to contribute to GHG emissions savings and result in significant health and environmental benefits. GHG reduction (Scope 1 and Scope 2), including both phases, is expected to be around 282,460 tonnes of CO₂ equivalent per year.

The percentage of EBRD proceeds allocated to the Project (Tranche 1 and Tranche 2) qualifying as GET is 100 per cent.

ANNEX 5: TRANSITION IMPACT MONITORING

Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	New or updated GET technology or product leading to resource efficiency introduced	Completion of 6 regional waste management centres	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	New or updated GET technology or product leading to pollution prevention control introduced	Completion of sanitary landfills	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	CO ₂ e emissions reduced (tonnes/year)	GHG emission reduction of 282,433 tonnes CO ₂ e per year (Scope 1 and 2) [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Waste recovered, recycled or re-used (tonnes/year)	Waste recycled increase [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s) [REDACTED]	Serbia adopted the National Waste Management Programme 2022-2031 in January 2022. The Bank will support the Government of Serbia in development and update of the Regional Waste Management Plans (RWMPs) through loan-funded technical assistance. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	Donor
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	Increasing the share of women employees in all regional utility companies [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Client engages in policy dialogue: other	Closure of the existing non-sanitary landfills in four regions in the Phase 1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advisory & Policy Indicators	Waste treated and/or disposed (tonnes/year)	Waste diverted from non-sanitary landfills and disposed at new sanitary (EU-compliant) landfills	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]