

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 1 November 2023<sup>1</sup>

**SERBIA**

**SERBIAN RENEWABLE DISTRICT ENERGY  
PROJECT (REDE SERBIA)**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> 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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## ABBREVIATIONS / CURRENCY CONVERSIONS

Capex	Capital Expenditures
CBB	Consumption Based Billing
CO <sub>2</sub>	Carbon dioxide
CPI	Consumer Price Index
DH	District Heating
DHCs	District Heating Companies
EE	Energy Efficiency
EHS	Environmental, Health and Safety
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESMP	Environmental and Social Management Plan
EU	European Union
EURIBOR	European Interbank Offered Rate
GET	Green Economy Transition
GHG	Greenhouse Gases
GDP	Gross Domestic Product
HP	Heat Pump
IMF	International Monetary Fund
LCDS	Low Carbon Development Strategy
M	Million
MEI	Municipal and Environmental Infrastructure
MoF	Ministry of Finance
MoME	Ministry of Mining and Energy
NDC	Nationally Determined Contributions
NECP	National Energy and Climate Plan
NTS	Non-Technical Summary
PIP	Priority Investment Period
PIU	Project Implementation Unit
PP&R	Bank's Procurement Policy & Rules
ReDEWeB	Renewable District Energy in the Western Balkans Programme
ReDE	Renewable District Energy
RES	Renewable Energy Sources
REEP	Regional Energy Efficiency Programme
RoS	Republic of Serbia
RSD	Serbian Dinar
SDHBA	Serbian District Heating Business Association
SECO	Swiss State Secretariat for Economic Affairs
SEP	Stakeholder Engagement Plan
TC	Technical Cooperation

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1 EUR = 117.2 RSD (6 October 2023)

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Serbia (the “**Borrower**”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Republic of Serbia in the amount of up to EUR 30 million to finance investments in renewable heat generation in several district heating companies (“**DHCs**”) in Serbia, and accompanying energy efficiency measures including modernising heat substations and district heating networks (the “**Project**”). The Project is expected to be co-financed by investment grants of up to EUR 7.5 million from the Swiss State Secretariat for Economic Affairs (“**SECO**”) and the European Union under the Regional Energy Efficiency Programme (“**REEP**”). The Project will be implemented by the Ministry of Mining and Energy (the “**MoME**”), in cooperation with the participating DHCs.

The Project involves investments in renewable district energy (“**ReDE**”) in several small and medium cities to integrate solar-thermal, heat pump, and geothermal technologies in the existing district heating (“**DH**”) systems. The sub-projects were assessed and selected, with support of the MoME, through the Renewable District Energy in the Western Balkans Programme (“**ReDEWeB**”), based on their overall techno-economic potential and environmental impact. Most of the ReDE technologies envisaged under the Project will be applied for the first time by EBRD and DH systems in South-Eastern Europe.

As DH systems in Serbia almost exclusively depend on fossil fuels and are highly energy inefficient, the Project is expected to provide significant environmental benefits and contribute to energy security. Serbia imports up to 90 per cent of its natural gas supplies and increasing the use of renewable and waste heat in DH systems can reduce its dependency on imported petrol products and natural gas for heating and cooling purposes.

The Project is highly innovative and its expected transition impact is primarily derived from the *Green* quality thanks to its considerable environmental benefits. It is expected to result in 115GWh of produced renewable and waste heat, carbon emission reduction of c. 14,600 tCO<sub>2</sub>e p.a., and significant water and energy savings and air quality benefits for local communities. The Project also includes an ambitious package of TC support and policy dialogue to incentives further DH sector development and decarbonisation.

TC support for project preparation has been provided by ReDEWeB Programme. Funding for post-signing TCs for project implementation and policy dialogue support is expected to be provided by SECO.

I am satisfied that the operation is consistent with the Bank’s Strategy for Serbia, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition approach, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

SERBIA - Serbian Renewable District Energy Project (ReDE Serbia) - DTM 53021	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a senior loan of up to EUR 30 million in favour of the Republic of Serbia (the “ <b>Borrower</b> ”, the “ <b>Client</b> ”) represented by the Ministry of Finance (the “ <b>MoF</b> ”) to finance investments in renewable and waste heat based generation in several district heating companies (“ <b>DHCs</b> ”) located in 10 small and medium cities (including Pančevo, Vršac, Kraljevo, Niš, Bogatić, Bečej, Kruševac, Novi Pazar, Paraćin and Kragujevac) in Serbia, and accompanying measures including modernisation of substations and existing DH networks (the “ <b>Project</b> ”). The Project’s implementation will be centralised and conducted through the Ministry of Mining and Energy (the “ <b>MoME</b> ”) in cooperation with participating district heating companies (the “ <b>DHCs</b> ”).
<b>Client</b>	The Borrower and the Client is the Republic of Serbia represented by the MoF. MoME will be in charge of the overall Project coordination, monitoring and administration, including communication with the participating DHC, municipalities, and other stakeholders.
<b>Main Elements of the Proposal</b>	<p><b>Transition impact:</b> <i>Primary Quality – Green (GET Direct Track):</i> The Project is expected to result in considerable environmental benefits including 115GWh of produced renewable and waste heat, 61GWh of energy savings due to implementation of energy efficiency (“<b>EE</b>”) measures, 58,877m<sup>3</sup> of fresh water savings as well as carbon emission reduction of c. 14,600 tCO<sub>2</sub>e p.a. The total share of the heat generation from renewable and waste heat sources in Serbian DH system will increase from the existing 1.5% to 3.3%. The Project qualifies for <i>two uplifts</i> based on: (i) the introduction of green innovation through the integration of ReDE technologies which will be applied for the first time by EBRD and DH systems in South-Eastern Europe (heat pumps utilising waste heat from data centres and waste water treatment plants, heat pumps utilising river water, geothermal, etc.); and (ii) policy dialogue on DH sector development and decarbonisation.</p> <p><b>Additionality:</b> (i) <i>Financing structure</i> - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions; (ii) <i>Risk mitigation</i> - EBRD helps the Client to mitigate carbon transition risks and take climate action; (iii) <i>Knowledge, innovation and capacity building</i> - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project’s objectives.</p> <p><b>Sound banking:</b> The transaction is a sovereign loan.</p>
<b>Key Risks</b>	Macroeconomic risk is mitigated by the continuation of credible policy making upholding macroeconomic stability, robust growth in recent years in spite of volatility and confirmation of existing credit ratings of the Republic of Serbia; implementation risk is mitigated through the appointment of independent PIU support and supervision consultant and capacity building.
<b>Strategic Fit Summary</b>	The Project is in line with the Bank’s Strategy for Serbia, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition approach, and with the Agreement Establishing the Bank.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to EUR 30 million to the Republic of Serbia (the “ <b>Borrower</b> ”, the “ <b>Client</b> ”), represented by the Ministry of Finance (the “ <b>MoF</b> ”). The project implementation will be centralised and conducted through the Ministry of Mining and Energy (the “ <b>MoME</b> ”) in cooperation with participating district heating companies (the “ <b>DHCs</b> ”).
<b>Existing Exposure</b>	<u>Existing Exposure to the Republic of Serbia:</u> As of 30 September 2023, the Bank’s total operating assets in Serbia amounted to EUR 2,034 million. The Bank’s sovereign portfolio/exposure to the Republic of Serbia is EUR 1,248 million [REDACTED].
<b>Maturity / Exit / Repayment</b>	15-year tenor [REDACTED].
<b>Use of Proceeds – Description</b>	The loan proceeds will be used to finance investments in renewable and waste heat based generation in several DHCs located in 10 small and medium cities (including Pančevo, Vršac, Kraljevo, Niš, Bogatić, Bečej, Kruševac, Novi Pazar, Paraćin and Kragujevac) in Serbia (the “ <b>Project</b> ”) and the front-end fee. The Project will also support reconstruction of heat substations and DH network, in order to improve energy production efficiency and reduce water and energy losses in the DH network.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>MoF, MoME, and DHCs in following cities in Serbia: Pančevo, Vršac, Kraljevo, Niš, Bogatić, Bečej, Kruševac, Novi Pazar, Paraćin and Kragujevac.</li> </ul>
<b>Conditions to disbursement</b>	<ul style="list-style-type: none"> <li>[REDACTED]</li> </ul>
<b>Key Covenants</b>	<ul style="list-style-type: none"> <li>Satisfactory implementation of the Environmental and Social Action Plan (“ESAP”) and compliance with the EBRD Environmental and Social Policy relating to the project preparation activities.</li> <li>[REDACTED]</li> </ul>
<b>Security / Guarantees</b>	None (sovereign loan)
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>Project Agreement, between the Bank and Borrower, acting through MoME;</li> <li>Trilateral Agreements between MoME, DHCs, and municipalities and Bilateral Agreement between MoME and the City of Paraćin;</li> <li>Agreement of Cooperation signed in November 2020 between the Bank and SECO.</li> </ul>
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><i>Pre-signing:</i></p> <ul style="list-style-type: none"> <li><b>TC1: Rapid assessment study.</b> The TC supported high level appraisal of the technical and financial assessment of various project opportunities in several municipalities and prioritised the needs for policy interventions. Total budget of EUR 74,960, financed by the ReDEWeB Programme.</li> <li><b>TC2: Support for Project Preparation.</b> The TC is supporting MoME in coordination with DHCs/municipalities, review of the consultancy reports, policy initiatives, etc. Total budget of EUR 59,980, financed by the ReDEWeB Programme.</li> <li><b>TC3: Technical, Financial, Environmental and Social Due Diligence.</b>, in an amount of up to EUR 900,747, financed by the ReDEWeB Programme.</li> </ul> <p><i>Post-signing:</i></p> <ul style="list-style-type: none"> <li><b>TC4: Project Implementation Unit (the “PIU”) Support and Supervision.</b> [REDACTED] to be financed by SECO and/or other international donor.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>TC5: Policy dialogue support:</b> Support for transposition of Article 14 of Energy Efficiency Directive for Serbia and preparation of an Action Plan. [REDACTED] financed by SECO</li> <li>• <b>TC6: Policy dialogue support:</b> Decarbonisation Roadmap for the DH and Cooling sector in the Republic of Serbia. [REDACTED] proposed to be financed by SECO.</li> <li>• <b>TC7: Policy dialogue support:</b> Structuring the process of expanding the DH system, connecting additional consumers, and shutdown of boiler rooms to reduce CO2 emissions and air pollution. [REDACTED] proposed to be financed by SECO</li> </ul> <p><b>B. Co-investment grants / Concessional Finance (Non-TC)</b></p> <ul style="list-style-type: none"> <li>• Investment Grants of up to EUR 7.5 million (approximately 20 per cent of CAPEX). [REDACTED]</li> </ul> <p><i>Reimbursement:</i> The above assignments will be non-reimbursable transactional TCs.  <i>Cost sharing:</i> The Borrowers will be responsible for paying all VAT and other indirect taxes that are applied to both loan, grant and the post-signing TC assignments as a parallel cost sharing contribution to the project (VAT is levied at 20 % in Serbia).</p>
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[REDACTED]



# INVESTMENT PROPOSAL SUMMARY

## 1. STRATEGIC FIT AND KEY ISSUES

### 1.1 STRATEGIC CONTEXT

The DH sector in Serbia consists of 58 operating DH systems with a total installed capacity of 6,022MW and 6,800GWh of supplied heat annually. The sector is in urgent need of decarbonisation as it is almost entirely dependent on fossil fuels (98.5 per cent). In the overall fuel mix, 79.7 per cent of DH systems' consumption is supplied by the natural gas. Therefore, in addition to providing significant environmental benefits, innovative ReDE solutions (solar-thermal, heat pump, geothermal, urban/industrial waste heat and other technologies) financed by the Project are expected to contribute to energy security by decreasing dependency of imported fossil fuels and increasing service affordability and financial stability of the DHCs.

The Project will support the decarbonisation of Serbia's DH sector through a holistic approach at both the national and municipal/DHCs level in line with commitments under the Paris Agreement. Serbia has adopted its enhanced National Determined Contributions ("NDC") with a net greenhouse gas emissions reduction target of 33.3 per cent by 2030 compared to 1990. As part of another Bank-financed transaction, the Government further committed to adoption of the first National Energy and Climate Plan ("NECP") by the end 2023. Within the broader sector, the Bank has been supporting Serbia to improve its regulatory environment and remove barriers for investments in EE. Under flagship REEP/REEP Plus projects, it has supported the development of legislation governing EE and the energy performance of buildings, effectively stimulating EE investments and supporting achievement of national sustainable targets. Further significant activities are carried out to improve energy efficiency in residential and public sector, and additional support will be provided to the newly established Administration for Financing and Promoting Energy Efficiency in cooperation with the EU.

The Project is fully aligned with Green Agenda objectives and Sofia Declaration on the Green Agenda for the Western Balkans, and in compliance with adopted national and EU sectoral strategies, including:

- Serbian Law on the Use of Renewable Energy Sources, which incorporates a dedicated section for the heating and cooling sector (Articles 70-74) and envisages support for implementing ReDE technologies, including financial support from the Government in the form of subsidies for heat pumps, solar energy, geothermal energy, energy of biodegradable waste, biomass, and urban/industrial waste heat;
- Draft NECP and Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030 which set high ambition for the decarbonisation of heating and cooling sector;
- Serbia's Energy Community Treaty commitments for the decarbonisation of the energy sector by increasing the share of renewable energy heating and cooling production and distribution and security of the supply.
- RePowerEU Plan for reducing Europe's energy dependence on fossil fuels, and EU Solar Energy Strategy which aims to triple existing heat generation from solar thermal / geothermal sources.

The Project aims to facilitate the establishment of the ReDE market in Serbia through implementation of innovative projects and capacity building and awareness raising of all stakeholders. The Project is accompanied by an ambitious policy dialogue package which will assist the Serbian authorities to comply with the targets undertaken as part of the EU accession



process and Paris Agreement. Specifically, the Project will support development of a policy roadmap for decarbonisation for the DH and cooling systems in Serbia, in order to identify the gaps and required steps to design a regulatory framework for incentivising investments in renewable DH generation. In addition, the Project will support the analysis of the potential for the implementation of highly efficient cogeneration and efficient district heating and cooling (the ‘**Comprehensive Assessment**’), which is an obligation established by Article 117 of Serbia’s Law on Energy Efficiency and Rational Use of Energy and based on the requirements of Article 14 of Directive 2012/27/EU on Energy Efficiency. The Comprehensive Assessment will be the first strategic document dedicated to decarbonisation of DH and cooling sector in Serbia, and based on it, an Action Plan will be developed and incorporated in the future energy sector strategic plans and documents. Adoption of the Comprehensive Assessment and its submission to the Energy Community Secretariat within 2 years from signing, is covenanted in the financing agreements.

As a result of the Project, the total share of heat generation from renewable and waste heat sources in the Serbian DH sector will increase from the current 1.5 per cent to 3.3 per cent. All these initiatives will ultimately result in the creation of friendly environment for the development of privately financed ReDE projects.

The Project is consistent with the Bank’s Strategy for Serbia, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition approach and with the Agreement Establishing the Bank.

## 1.2 ADDITIONALITY

Identified triggers	Description
[REDACTED]	[REDACTED]

Additionality sources	Description / Evidence
<b>Financing structure</b> <ul style="list-style-type: none"> <li>EBRD offers a <b>tenor</b>, which is longer than available to the client in the market on reasonable terms and conditions.</li> <li>EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b>, e.g. a longer grace period. Such financing is necessary to structure the project.</li> </ul>	The Bank is providing a sovereign loan with a tenor of 15 years [REDACTED], which is not available from commercial sources.
<b>Risk mitigation</b> <ul style="list-style-type: none"> <li>EBRD helps the client to mitigate <b>carbon transition risks</b> and take climate action, such as to move along a low carbon transition pathway.</li> </ul>	115GWh of produced renewable and waste heat, 61GWh of energy savings due to EE measures implementation, 58,877m <sup>3</sup> of fresh water savings as well as carbon emission reduction of c. 14,600 tCO <sub>2</sub> e p.a.. Total share of the heat generation from renewable sources will increase from the existing 1.5 per cent to 3.3 per cent.

<p><b>Policy, sector, institutional, or regulatory change</b></p> <ul style="list-style-type: none"> <li>- EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.).</li> </ul>	<p>The Project will support development of a regulatory framework to stimulate further development and decarbonisation in Serbia's DH sector.</p>
<p><b>Standard-setting: helping projects and clients achieve higher standards</b></p> <ul style="list-style-type: none"> <li>- Client seeks/makes use of EBRD expertise on <b>higher environmental standards</b>, above 'business as usual' (e.g. adoption of emissions standards, climate-related ISO standards etc.).</li> <li>- Client seeks/makes use of EBRD expertise over <b>energy and resource efficiency and climate resilience</b> financing via provision of energy and climate audits, minimum performance standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc.</li> </ul>	<p>An ESAP has been agreed with the MoME based on the conducted Environmental and Social Due Diligence ("<b>ESDD</b>"). Actions under the ESAP are going beyond local requirements.</p> <p>The Project includes ambitious policy dialogue TCs which will assist the Serbian authorities to meet their targets and obligations as part of the EU accession process and Paris Agreement.</p>
<p><b>Knowledge, innovation, and capacity building</b></p> <ul style="list-style-type: none"> <li>- EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to <b>strengthen the capacity of the client</b>.</li> </ul>	<p>Through various TC activities, the Bank is providing expertise and supporting capacity building, including the development of the procurement and implementation capacities in line with the best international standards and assessment of methods to increase customer satisfaction with the quality of DHCs' service.</p>

### 1.3 TRANSITION IMPACT

#### Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 60%</i>	The percentage of EBRD proceeds allocated to the Project that qualifies as GET finance is 100 per cent.
1.2	<i>This project involves a policy engagement, which is new and aims to deliver institutional reform and lead to structural changes across sectors/markets.</i>	MoME and EBRD have agreed to support the development of the <i>Comprehensive Assessment and Action Plan for the implementation of highly efficient cogeneration and the possibility of using efficient district heating/cooling</i> . This important policy assignment is an obligation established by Article 117 of Serbia's Law on Energy Efficiency and Rational Use of Energy and based on the requirements of Article 14 of Directive 2012/27/EU on Energy Efficiency. In

		<p>addition, EBRD will cooperate closely with SDHBA and MoME on several policy topics, including:</p> <ul style="list-style-type: none"> <li>- Policy Roadmap for Decarbonisation to map the required steps to design a regulatory framework to incentivise investments in renewable DH generation;</li> <li>- Assessment focused on structuring the process of expanding the DH systems, connecting additional consumers, and shutting-down of boiler booms to reduce CO2 emissions and air pollution, as well as increasing customer satisfaction with DHCs' service levels and improving communication channels for the e DH systems.</li> </ul>
1.3	<i>The project introduces one of the first three of its kind green products or technologies that are innovative at the national or regional level.</i>	Most of the ReDE technologies envisaged under the Project will be applied for the first time by EBRD and DH systems in the South-Eastern Europe.

The delivery risks are primarily related to the MoME's lack of experience with the EBRD's PP&R which will be mitigated by a procurement and PIU consultancy support and works supervision by an independent engineer and capacity building. Serbia has a credible commitment towards decarbonisation and alignment of its regulatory framework with long-term relevant policy objectives at EU, UNFCCC and Energy Community, which mitigates the risks related to policy dialogue results.

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk / Macro-economic risk	Medium / High	<p>Serbia's economic growth is expected to slow down to 2 per cent in 2023 before returning closer to its medium-term potential at 3.5 per cent in 2024 (EBRD REP, May 2023). The expected slowdown in Eurozone export markets will continue to weigh on external demand. In parallel, still high inflation will continue eroding disposable incomes, while tight financial conditions on local and external markets will further dampen domestic demand. The medium-term outlook remains robust, underpinned by macroeconomic stability, a record of strong public and foreign investments and a commitment to reform anchored by the EU approximation process.</p> <p><u>Macro-economic risk is mitigated by:</u> (i) Serbia's public debt expected to fall below 50 per cent of GDP by 2026 (assuming timely return to fiscal discipline and absence of external shocks), and recovery of economic growth in the medium term, according to the IMF; (ii) the majority (85 per cent) of the public debt is fixed rate, average maturity of outstanding debt is long and share of official and institutional creditors in the external debt is high; (iii) availability of external financing, including through successful Eurobond issuances in January 2023 (a 5-year and a 10-year Eurobond, both hedged against the euro and heavily oversubscribed), engagement with the IMF through a two-year Stand By Arrangement and bilateral financing.</p>
Implementation risk	High / Medium	The MoME will be in charge of the overall Project implementation and form a Central Project Implementation Unit ("CPIU") with an adequate number of qualified staff. The MoME has experience with application of biomass in DH systems through a KfW financed programme. All contracts under the Project will be procured in accordance with the Bank's PP&R for public sector operations. The MoME's unfamiliarity with EBRD's PP&R will be mitigated through the appointment of

		procurement support, while the project implementation will be supervised by an independent engineer. The CPIU will be supported by teams appointed within the participating municipalities and DHCs who will be responsible for day to day administration of the contracts for which they are direct beneficiaries.
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## 2. MEASURING / MONITORING SUCCESS

### Transition Impact Monitoring Indicators

#### Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	New or updated GET technology or product leading to renewable energy generation introduced [Donor Co-investment]	The Project will integrate solar-thermal, heat pump, and geothermal technologies in the existing DH systems in Serbia, which are currently based almost exclusively on fossil fuels and are highly energy inefficient.	[REDACTED]	[REDACTED]	[REDACTED]
1.2	CO <sub>2</sub> e emissions reduced (tonnes/year) [Donor Co-investment]	By introducing renewable and waste heat based sources to district heating systems and improving system EE, the Project is expected to result in CO <sub>2</sub> reduction of 14,578 tCO <sub>2</sub> / yr.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Renewable energy capacity installed (MW) [Donor Co-investment]	Renewable energy / heat pump capacity installed	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Primary energy saved (GJ/year) [Donor Co-investment]	Energy saved via elimination of heat production from fossil fuels	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Water saved (m <sup>3</sup> /year) [Donor Co-investment]	Water saved	[REDACTED]	[REDACTED]	[REDACTED]
1.6	Legal, institutional or regulatory frameworks in target areas improved [Donor TC]	Development of the analysis of the potential for the implementation of highly efficient cogeneration and efficient district heating/cooling (the 'Comprehensive Assessment'), which is an obligation of the Republic of Serbia towards Energy Community Secretariat (ECS) in order to transpose Article 14 of Energy Efficiency Directive into Serbian legislation. Adoption of Comprehensive Assessment by MoME and its submission to the ECS will be covenanted in the Project Agreement. Based on	[REDACTED]	[REDACTED]	[REDACTED]

		the Comprehensive Assessment, an Action Plan will be developed and incorporated in the future energy sector strategic documents.			
1.7	New regulatory instruments (e.g. model law, guidelines) [Donor TC]	Policy Roadmap developed for the District Heating and Cooling sector in Serbia	[REDACTED]	[REDACTED]	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER

The Borrower is the Republic of Serbia, represented by the Ministry of Finance.

Serbia is the highest rated and most resilient economy among its Western Balkans peers. In 2022, GDP growth slowed to 2.3 per cent year-on-year and continued at a muted pace of 0.7 per cent in the first quarter of 2023. The 2022 fiscal deficit was much lower than expected at 3 per cent of GDP, as additional expenditure measures to soften the impact of the cost-of-living shock on the population were balanced against a lower than expected fiscal impact of energy prices given the mild winter and higher than planned tax revenues propped up by inflation. In an environment of large external and fiscal financing needs at the time of globally tight financial markets, authorities agreed on a two-year Stand-by Agreement programme with the IMF in the total amount of EUR 2.4bn, centred on energy reforms. International reserves reached a record high of EUR 22.6bn in end-June 2023 on account of repeated access to external funding, strong remittances and exports.

Public debt increased from 52.8 per cent of GDP in 2019 to 57.8 per cent of GDP in 2020 before declining to 55.6 per cent of GDP by end-2022. The IMF (Country report, July 2023) assesses public debt as sustainable, noting it is relatively low compared to peers and expecting it to remain on a downward path thanks to expected medium-term fiscal consolidation and growth recovery. Public debt is set to gradually decline to 43.8 per cent of GDP in 2028, conditional on the implementation of feasible fiscal adjustment measures.

Serbia is rated at BB+ by S&P with a Stable outlook as affirmed in April 2023, Ba2 (Stable) by Moody's as affirmed in March 2023 and BB+ (Stable) by Fitch, affirmed in February 2023. More detailed debt assessment of Serbia is presented in Annex 2.

#### 3.2 IMPLEMENTING ENTITY

The MoME will be in charge of the overall Project implementation. The MoME will form a CPIU and appoint an adequate number of qualified staff. The CPIU will be supported by teams appointed within the participating municipalities and DHCs who will be responsible for day to day administration of the contracts for which they are direct beneficiaries. [REDACTED] MoME will engage a qualified independent consultant to support the CPIU in all procurement matters and supervision of all contracts to be implemented under the Project.

## 4. MARKET CONTEXT

The DH sector in Serbia consists of 58 operating DH systems with a total installed capacity of 6,022MW and 6,800GWh of supplied heat annually. The sector is in **urgent need of decarbonisation** as it is almost entirely (98.5 per cent) dependent on fossil fuels (79.7 per cent natural gas, 5.1 per cent heavy oil, 13.7 per cent coal, and only 1.5 per cent biomass). Heat is distributed over a 2,409 km long network which supplies total of 24,402 thermal substations. The average age of production and distribution systems is 27 and 22.5 years, respectively. DHCs emit over 1.88 million tonnes of CO<sub>2</sub> eq. annually and significant amount of air pollutants (5050 tonnes of SO<sub>2</sub> and 282 tonnes of particulate matter (PM)).

The lack of investment and maintenance in the past has left many DHCs in Serbia in a poor state with oversized and inefficient boilers, degraded distribution systems with excessive water and heat losses, and mostly old and unregulated heating substations. This resulted in high inefficiencies and operating costs as well as declining service levels. Only 13 out of total 58 DH systems apply consumption-based billing (“**CBB**”) for all connected buildings. This is a consequence of insufficient investments in demand side measures, especially in energy efficiency (“**EE**”) refurbishment of multifamily residential buildings and installation of thermostatic valves and heat allocators. Together with MoME, the Bank is currently developing the *Public ESCO* concept for the refurbishment of multifamily residential buildings (pioneered in the City of Šabac and expected to be replicated in several other municipalities) which should provide the financing mechanism and enable a transfer to CBB. In addition, modernisation of thermal substations (as envisaged in several municipalities covered by the Project - Kragujevac, Bečej, Kruševac, Bogatić), needs to be accelerated as it is the initial technical prerequisite for the transfer to CBB.

Recent efforts to modernise DH in Serbia are paving the way for the integration of renewables. Several DH systems have already modernised substations and introduced the measurement of delivered thermal energy and quantitative / qualitative regulation of the system. These improvements resulted in operational optimisation, increased EE, reduced temperature in the network and created a basis for the implementation of ReDE technologies.

[REDACTED] ReDE solutions provide stable and predictable long-term heat production price that is independent of other market and energy systems conditions. The [REDACTED] technologies (solar-thermal, heat pump, geothermal, urban/industrial waste heat and other technologies) financed by the Project are expected to provide significant environmental benefits and contribution to energy security by decreasing the dependency on imported fossil fuels and increasing service affordability and financial stability of the DHCs. The Project will also support the reconstruction of heat substations and DH network in order to improve energy production efficiency by reducing water and energy losses. Even though DHCs do not have CO<sub>2</sub> emissions related costs at this moment, the Project will decrease CO<sub>2</sub> intensity of heat production process and in the long-term perspective enable DHCs to benefit from low carbon heat production and reduced total production costs (which will include CO<sub>2</sub> emissions costs).

The Project aims to facilitate the establishment of the ReDE market through the implementation of innovative projects, comprehensive policy dialogue, and capacity building and awareness raising of all stakeholders. This will ultimately result in the creation of a friendly environment for the development of privately financed ReDE projects. As a result of the Project, total share of heat generation from renewable and waste heat sources in Serbian DH sector will increase from the current 1.5 per cent to 3.3 per cent.



## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 ECONOMIC ANALYSIS

[REDACTED]

### 5.2 SENSITIVITY ANALYSIS

[REDACTED]

### 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised B (2019 ESP). The environmental and social impacts associated with the Project are generally site specific and can be readily managed. Due diligence has been carried out by independent consultants, with sub-projects split into two groups. For each group, the relevant consultants carried out an environmental and social appraisal of the proposed investments and assessed the environmental, health and safety (“EHS”) and human resources (HR”) management systems of the operating companies. Non-technical summaries, stakeholder engagement plans and ESAP/ environmental and social management plans (“ESMPs”) have been developed for each group of sub-projects.

The Project involves upgrades or re-design of ten district heating systems in several medium and small cities in Serbia. The Project will deploy a variety of technologies and renewable heat sources, including geothermal, solar biomass and waste-heat recovery. Implementation is estimated to result in CO<sub>2</sub>e savings of over 14 thousand tonnes per year and water savings of over 58 thousand cubic meters per year. The reduction in the use of natural gas and fuel oil will also have air quality benefits for local communities and should improve the reliability of the heating supply.

While the overall environmental and social impacts of the project is positive, there are some risks that will need to be managed during implementation and operation. These relate primarily to contractor management and occupational and community health and safety. One sub-project may require some land acquisition for a short section of pipeline and, if confirmed, this will be carried out in line with PR5. Implementation of each sub-project will be supported by a CPIU. The ESAPs set out actions for environmental and social management of the overall project, and also contain some measures related to specific sub-projects. The Project will also be required to implement the Stakeholder Engagement Plan, including operating a grievance mechanism. EBRD will monitor implementation of these commitments through annual reporting by the CPIU.

### 6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the MoF, the MoME, the implementing entities and other stakeholders. The review has not identified any integrity



issues [REDACTED]. It has been therefore concluded that the Project does not pose an unacceptable integrity or reputational risk to the Bank.

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, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

### 6.3 OTHER ISSUES

**Concessional Finance:** The Project has a grant intensity of 20 per cent, with capex grants provided by SECO (EUR 4.5 million) and REEP (EUR 3 million). The capex grant is sized in a way that should help increase the ambition and guarantee that the Project reaches optimal scale, not limited by financial constraints.

The use of concessional finance is further justified based on the objective of promoting innovative, green, renewable energy investments, which represents a policy shift or energy diversification from fossil fuel-based resources. The grant will help to mitigate market failures of not pricing GHG emission and other pollutants, which disadvantage ReDE technologies compared to fossil fuel based technologies.

The grant is currently needed to incentivise the Borrower to create a market for new technologies and assume the financing responsibility on behalf of participating DHCs. As DH systems become more energy efficient and recognise the benefits of ReDE investments, it is expected that over time their financial capacities would improve and more DHCs would be willing to make similar investments, potentially with the involvement of private sector, thus reducing the need for grants.

**ANNEXES TO OPERATION REPORT**

ANNEX 1	Project Description
ANNEX 2	Serbia Sovereign Debt Assessment
ANNEX 3	Green Assessment Summary
ANNEX 4	Economic Assessment
ANNEX 5	Project Implementation

## ANNEX 1 – PROJECT DESCRIPTION

The Project will finance investments in ReDE in 10 cities listed below. The investments will integrate solar thermal, heat pump, and geothermal technologies in the existing DH systems.

[REDACTED]

Municipality	Priority Investment Programme (PIP)	CAPEX (EUR)
<b>Pančevo</b>	Reconstruction of manholes	[REDACTED]
<b>Bogatić</b>	Additional connections on the existing geothermal network	[REDACTED]
<b>Bečej</b>	Construction of new geothermal power plant	[REDACTED]
	Reconstruction of distribution network	[REDACTED]
	Reconstruction of heat substations	[REDACTED]
<b>Vršac</b>	Heat pump on wastewater treatment plant	[REDACTED]
	Construction of distribution network	[REDACTED]
	Reconstruction of heat substations	[REDACTED]
<b>Kragujevac</b>	Utilisation of waste heat from data centre for the heat pump	[REDACTED]
	Substation automation of 178 heat substations in Kragujevac	[REDACTED]
<b>Kraljevo</b>	Heat pumps for flue gas condensation Central boiler house and Nova Kolonija Boiler House (BH)	[REDACTED]
<b>Kruševac</b>	Heat pump utilising treated water from Wastewater treatment plant	[REDACTED]
	Reconstruction of the existing DH network	[REDACTED]
	Automation of 66 heating substations	[REDACTED]
<b>Niš</b>	Solar thermal plant for DHW at Majakovski BH	[REDACTED]
	Air to water heat pump at Pasi Poljana	[REDACTED]
	Large capacity heat pump using water from Niša va	[REDACTED]
<b>Novi Pazar</b>	Heat pump utilising the drinking water at the BHLUG	[REDACTED]
<b>Paraćin</b>	Heat pump using geothermal water from well at the zone of textile factory including construction of new DH network and heating substations - Issuing research and exploration rights	[REDACTED]
<b>TOTAL</b>		<b>46,864,014</b>

A map of Serbia is presented below flagging the municipalities which are part of the Project.



Brief descriptions of each investment and the accompanying impact is provided below (all savings are presented on annual bases).

### 1) Investments involving construction of a new heat source:

- **Kragujevac** – Utilisation of waste heat energy from the National Data Center. The aim of the project is to utilise the waste heat generated by cooling the servers, thus decreasing the electricity consumption and associated costs for the Data Centre and natural gas consumption for the DHC. The heat energy generated by the heat pump will be utilised to supply DH network connected to two boiler houses. The heat pumps will provide 28,500 MWh of thermal energy while consuming 4,800 MWh of electricity. The project will result in cost and CO<sub>2</sub> emissions savings of [REDACTED] 3,077 tCO<sub>2</sub> respectively.
- **Niš** – Three sub-projects are planned in the City of Niš. The first one envisages the installation of a solar-thermal plant to be used for producing domestic hot water and feeding into the existing DH network. The project will result in 450 MWh of generated thermal energy, [REDACTED] and 99 tCO<sub>2</sub> of emissions savings. The second one foresees the implementation of an air-water heat pump to replace boilers using fuel oil in both the boiler house Pasi Poljana operated by DHC Niš and the nearby elementary school “Petar I”. The project will result in 500 MWh of generated thermal energy, [REDACTED]

and 33 tCO<sub>2</sub> of emissions savings. The third project includes implementation of a heat pump to utilise energy from water in the river Nišava. The project will result in 53,325 MWh of generated thermal energy, [REDACTED] and 1,409 tCO<sub>2</sub> of emissions savings.

- **Kruševac** – The project will enable utilising waste heat from the existing waste water treatment plant and introducing heat pump in the DH system. It will result in 25,891 MWh of generated thermal energy, [REDACTED] and 300 tCO<sub>2</sub> of emissions savings.
- **Kraljevo** – The investment relates to the utilisation of waste heat from flue gas condensation in two boiler houses, Central and Nova Kolonija, by introducing heat pumps in the DH system. Heat pumps will be used, one in each of the two boiler houses with an installed capacity of approximately 1.1 MW each. The project will result in 5,500 MWh of generated thermal energy, [REDACTED] and 371 tCO<sub>2</sub> of emissions savings.
- **Bogatić** – The project will introduce additional connections on the existing geothermal network, which is expected to result in elimination of coal use in Bogatić DH system. This represents the reduction in the coal consumption by 150t/year. Electricity consumption will also be reduced by 365 MWh/year and CO<sub>2</sub> emissions by 534 t/year.
- **Bečej** – The project involves construction of a new geothermal power plant. It is expected that the consumption of natural gas will be reduced by 1,365,916 m<sup>3</sup>/year, while 1,824 MWh/year of electrical energy will be additionally needed to produce the required amount of heating energy. Required natural gas storage capacity will be reduced by 13,507 m<sup>3</sup> per year, while CO<sub>2</sub> emissions are expected to decrease by 687 t/year for the whole considered period.
- **Vršac** – The investment will result in the introduction of a heat pump, utilising waste heat from the wastewater treatment plant. The investment consists of three inseparable components – installation of the heat pump facility, construction of network interconnection between three existing boiler houses (3,970m of new pipeline construction) and modernisation of 35 substations. Natural gas consumption will be reduced by 3,487,931 m<sup>3</sup>/year, while additional 4,203 MWh/year of electrical energy will be needed for the whole considered period. The project will result in 15,781 MWh of generated thermal energy, and 3,365 tCO<sub>2</sub> of emissions savings.
- **Novi Pazar** – The project involves the introduction of heat pumps to enable heat utilisation from the drinking water system at the boiler house Lug. The project will result in 1,243 MWh of generated thermal energy, [REDACTED] and 620 tCO<sub>2</sub> of emissions savings.
- **Paraćin** – The project in Paraćin will be developed in two phases: 1) preparation of boreholes for the exploration of the geothermal potential, and 2) installation of a heat pump using geothermal water from the wells and development of new DH network. The project will result in CO<sub>2</sub> emission reduction of approximately 194 t/year and annual cost savings [REDACTED].

## **2) Investments in reconstruction of substations:**

- **Bečej** – The investment involves the reconstruction of 26 heat substations. Natural gas consumption is expected to be reduced by 95,620 m<sup>3</sup>/year, while the need for natural gas storage capacity will be reduced by 531 m<sup>3</sup>/year for the whole considered period. O&M costs are expected to be reduced [REDACTED] and CO<sub>2</sub> emissions by 141 t/year for the whole period.
- **Kragujevac** – The project relates to the rehabilitation of 178 heating substations in Kragujevac with various capacities. The project will result in 5,898 MWh of energy, [REDACTED] and 1,324 tCO<sub>2</sub> of emissions savings.
- **Kruševac** – The investment represents the rehabilitation of 66 heating substations in Kruševac with an average capacity of 280kW. The project will result in 2,077 MWh of energy, [REDACTED] and 466 tCO<sub>2</sub> of emissions savings.

### 3) Investments in reconstruction of existing distribution network:

- **Pančevo** – The project consists of the reconstruction of 48 manholes and 1 km of pipelines within the distribution network. Consumption of natural gas will be reduced by 692,042 m<sup>3</sup>/year. O&M costs are expected to be reduced [REDACTED] for the whole period. Water consumption will be reduced by 13,300 m<sup>3</sup>/year and CO<sub>2</sub> emissions by 1,250 t/year for the whole period.
- **Kruševac** – The project relates to the reconstruction of the existing DH network and the replacement of 808 m of old heating pipes in the distribution network. The project will result in 809 MWh of energy, [REDACTED] and 182 tCO<sub>2</sub> of emissions savings.
- **Bečej** – The project relates to the reconstruction of the existing DH network and the replacement of 2.2 km of old heating pipes. Consumption of natural gas will be reduced by 219,926 m<sup>3</sup>/year, [REDACTED], water consumption by 8,386 m<sup>3</sup>/year, and CO<sub>2</sub> emissions by 325 t/year for the whole period.

## **ANNEX 2 – SERBIA SOVEREIGN DEBT ASSESSMENT**

[REDACTED]



## ANNEX 3 – GREEN ASSESSMENTS SUMMARY

### Introduction

- The Project entails the integration of renewable sources into district heating systems in a number of cities in Serbia.
- The Project is assessed as **aligned with the goals of the Paris Agreement** based on the 'direct finance' methodology
- The Project qualifies for **100 per cent GET** finance.

### Paris alignment assessment

#### *Alignment with the mitigation goals of Paris Agreement*

- The project/economic activity is **included** in the 'aligned list'.
- Regarding project/economic activity(ies), there are **no** activities included in the 'non-aligned list'.
- *Conclusion: The project is assessed as aligned with the mitigation goals of Paris Agreement (**BB1 aligned**).*

#### *Alignment with the adaptation goals of Paris Agreement*

- Evaluation of the physical climate risk and vulnerability context: An internal screening of project location was undertaken to check whether there are any potentially material physical climate risks. The screening identified flooding risk for the City of Niš. The geographical distribution of the cities in question, hence the project sites, is quite wide and scattered. The technical due diligence included a climate risk assessment which has listed the resilience responses to flooding and other potentially material climate risks that may affect the project. Below notes are given for the overall project (considering all project locations) while the technical due diligence report assesses each city specifically.
- Definition of climate resilience measures:
  - Flooding and extreme rainfall events: The watercourses of the Danube, Sava and Tisa rivers, as well as their tributaries are assessed as flood prone areas by the consultants. Consultants also report that there were no historical events related to negative flood impacts on the district heating system in the Project zone and that all project activities are located at the places that are not threatened by river floods. Following the 2014 floods, the Serbian Government approved a National Disaster Risk Management Program and developed a long-term risk management system, including the generation of flood risk information. The country is aligning its water legislation with the EU; the EU Floods Directive is almost fully transposed into the Law on Water in the country. In order to ensure safe and efficient operation, the client will take the risk of flooding and increased precipitation into consideration while choosing the exact siting and particularly the height of installations of the heat pumps and hydraulic connections as well as solar thermal plant. The consultant recommends locations with high drainage potential, structural protection measures (i.e. dikes, embankments) and/or water retaining facilities (i.e. dams, reservoirs) for the project locations. During final project design, the client is expected to confirm the use of materials resistant to heavy rain and floods. Also, the consultants recommend a regular monitoring of the state of floods in the project areas as part of the devised action plans.
  - Increased water stress and droughts: the Project will lead to overall water savings thanks to use of heat pumps systems that will utilise recycled water (i.e. treated wastewater from nearby wastewater treatment plants). During the final design of projects where water use is assumed (i.e. solar thermal),

Extreme temperature events and Droughts will be considered in calculation of the volume/size of the storage.

- Mass movement: After the 2014 floods a preliminary map of the possibility of landslides occurrence was generated and the project sites in question are in the low-risk areas. Historically, no significant erosion and landslides were recorded in the Project area. The consultants recommend a regular monitoring of the state of landslides in the project areas as part of the devised action plans and the report states that projections of soil erosion will be taken into account in the selection of location of the solar plant, during development of the final project design and operation and checked throughout the EIA process.
- Increased heat stress: During the final project design and construction, in order to ensure safe and efficient operation, the client will take the risk of increased temperatures into consideration while installing the heat pumps as they need sufficient airflow which may slow down during high temperatures.
- Wildfires: The district heating network and equipment are located in urban areas of all municipalities/cities in question and they are not close to forests. There is no risk of forest fires impacts on DH system
- Appraisal of broader climate resilience context: All project activities lead to GHG emission reduction and are consistent with the NDCs as well as LCDS and its Action plan. In addition, all projects/activities subject of this report contribute to and are aligned with the sector specific document including draft NECP. Even in the National Adaptation Programme (“NAP”) currently under development, the projects are not considered inconsistent, because they do not threaten climate resilience.
- Conclusion: *The Project is assessed as aligned with the adaptation goals of Paris Agreement (BB2 aligned).*

### **GET attribution**

- District heating systems in Serbia depend almost exclusively on fossil fuels. The Project aims to support decarbonisation of the district heating system by introducing heat generation from renewable sources or waste energy, heat pumps, reconstruction of heating substations and other district heating infrastructure in various municipalities.
- While Project components vary, they all help decarbonise the DH network in relevant cities. Components include introduction of new RE sources, distribution network reconstruction, replacement/reconstruction of heating substations. The Project will lead to heat energy generation from renewable sources (geothermal and wastewater energy), improve energy production efficiency, improve the equipment efficiency by reconstruction of heat substations and DH network, and reduce water and energy losses in the DH network.
- The Project claims GET mitigation as it will lead to significant GHG emission reduction via improvements in the DH networks of several small/medium sized cities in Serbia. The Project also claims GET environment - pollution prevention and control finance as it helps reduce NOx, PM and SO2 via elimination of fossil fuels for heating purposes.
- Reconstruction of distribution network will reduce the loss of heating medium caused by leakage, and thus the need to continuously replenish the system with water. The Project will therefore lead to water savings as well.
- By replacing the energy source and reducing the consumption of fossil fuels, due to the reduction of losses that will result from distribution network reconstruction activities, pollutants release will be reduced. This lead to reduction in NOx, SO2 and PM emissions.
- Conclusion: *The Project is 100 per cent GET.*

## **ANNEX 4 – ECONOMIC ASSESSMENT AND SENSITIVITY ANALYSIS**

[REDACTED]

## ANNEX 5 - PROJECT IMPLEMENTATION

### Procurement classification – *Public sovereign*

[REDACTED]

#### **The Client's capacity assessment related risk: *High***

The Executing Agency for the Project will be a dedicated Central PIU ("CPIU") to be established within MoME which will be in charge of procurement, contract administration, disbursements and reporting to the Project financiers. The MoME CPIU will be supported by teams appointed within municipalities and DHCs who will be responsible for day to day administrations of the contracts for which they are direct beneficiaries. At the time of this Procurement Capacity Assessment the CPIU was not yet appointed, hence, the PIA was not in the position to assess its capacity. However, it is expected that the CPIU will be staffed with personnel from within its own organisation. [REDACTED]. MoME will engage a qualified independent consultant to support the CPIU develop the technical specifications and requirements and assist the CPIUs in all procurement matters and supervision of all contracts to be implemented under the Project.

#### **Contracts risk assessment: *Moderate –high***

The scope of the contracts to be covered by the Project are not technically challenging but there is limited experience in design and build of similar facilities in Republic of Serbia. Therefore, at local level there is relatively limited experience in designing, construction and operations of such facilities.

[REDACTED]

#### **Procurement arrangements:**

The Project is classified as a public sector operation for procurement purposes.

It is expected that all contracts to be financed from the EBRD loan proceeds, as presented in the attached indicative Procurement Plan, will be procured through open competitive procedures in accordance with Article 3, Section III of EBRD PPR and relevant EBRD Standard Procurement Documents.

The current procurement strategy envisage that all works contracts to be financed under the Project will be procured through Open Multiple Stages tendering procedure and will be based on FIDIC Yellow Book General Conditions of Contracts.

The PIU Support Consultant and Works Supervision Services will be procured through 'Open' Single Stage Two Envelopes tendering procedure.

All other consultancy services for Bank led assignments/contract, will be procured either through Direct Contracting [REDACTED] or Open Competitive procedures [REDACTED] in accordance with the EBRD Corporate Procurement Policy. [REDACTED].