

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

Approved by the Board of Directors on 11 September 2024<sup>1</sup>

**SERBIA**

**Serbia Rail Infrastructure Urgent Renewals**

*[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

ca.	Circa
CAPEX	Capital Expenditures
CBA	Cost-Benefit Analysis
CP	Conditions Precedent
EIRR	Economic Internal Rate of Return
ENPV	Expected Net Present Value
ESAP	Environmental and Social Action Plan
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
ESMP	Environmental and Social Management Plan
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GET	Green Economy Transition
IMF	International Monetary Fund
IRR	Internal Rate of Return
JSCRS	JSC Serbia Railways
LGD	Loss Given Default
km	Kilometres
km/h	Kilometres per hour
MoF	Ministry of Finance
MoCTI	Ministry of Construction, Transport and Infrastructure
NPV	Net Present Value
OCCO	Office of the Chief Compliance Officer
OGC	Office of the General Counsel
PD	Probability of Default
PEP	Politically Exposed Person
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PP&R	Procurement Policies & Rules
PPAD	Procurement Policy and Advisory Department
PRs	Performance Requirements
PSD	Project Summary Documents
RAROC	Risk-Adjusted Return On Capital
RoS	Republic of Serbia
RoW	Right Of Way
SBA	Stand-By Agreement
SEP	Stakeholder Engagement Plan
SMS	Safety Management System
SPGE	Strategy for the Promotion of Gender Equality
SRI	Serbian Railways Infrastructure
SSF	Shareholder Special Fund
TA / TC	Technical Assistance / Technical Cooperation
TAC	Track Access Charges
TI	Transition Impact
VAT	Value Added Tax

FX: 1 EUR = 117.06 RSD

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Serbia (“RoS” or the “Borrower”) are submitted for consideration by the Board of Directors. The facility will consist of a sovereign loan to RoS in the amount of up to EUR 50 million for the benefit of state-owned company, Serbian Railways Infrastructure (“SRI”, the “Client”, or the “Company”).

The operation will enable the Company to procure goods and materials necessary for the rehabilitation of rail tracks across the Serbian rail network on selected sections (the “Project”). The Project will help enhance the quality of rail infrastructure by improving the operational speed and prevention of derailments as well as the reliability and safety of passenger and freight rail services.

The expected transition impact of the Project includes primarily the *Green* quality through the improvement of the railway infrastructure, ultimately supporting modal shift towards rail transportation and through the introduction of climate change mitigation practices within the Company’s operations. The Project will also contribute to the *Inclusive* quality, building upon the inclusion objectives of the Bank’s previous project with the Company, by increasing the share of women within the Company and establishing the Company as an employer of choice for women as well as by introducing gender responsive HR policies and practices to ensure that all operations are carried out in a gender responsive manner.

TC support for this operation for technical, economic, environmental and social due diligence has been provided by the EBRD Shareholder Special Fund (“SSF”). Post-signing TC support for the development of an operational rail safety management system and climate change adaptation is expected to be provided by SSF or an international donor.

I am satisfied that the operation is consistent with the Bank’s Strategy for Serbia, the Transport Sector Strategy, the GET approach, EBRD’s Strategy for the Promotion of Gender Equality (“SPGE”), Equality of Opportunity Strategy, 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

<b>SERBIA – Serbia Rail Infrastructure Urgent Renewals – DTM 55104</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a sovereign loan in the amount of up to EUR 50 million in favour of the Republic of Serbia (“RoS” or the “Borrower”) for the benefit of Serbian Railway Infrastructure (“SRI” or the “Company”), a joint-stock company 100% owned by RoS. The loan will finance the procurement of goods (the “materials”) for the rehabilitation of rail tracks across the Serbian rail network on selected sections (the “Project”). The Project will be implemented by the Company with the support of the Ministry of Construction, Transport and Infrastructure (“MoCTI”).
<b>Client</b>	The Borrower is the RoS, represented by the Ministry of Finance (“MoF”) while the client and beneficiary is SRI, the railway infrastructure asset management company of Serbia, fully-owned by RoS. [REDACTED].
<b>Main Elements of the Proposal</b>	<p><b><u>Transition impact</u></b></p> <ul style="list-style-type: none"> <li>- Primary Quality – <i>Green</i> - all loan proceeds will be used for rail infrastructure, ultimately supporting modal shift towards rail transportation. Technical assistance will also be provided to the Company to help introduce climate change adaptation measures and practices into their operations.</li> <li>- Secondary Quality – <i>Inclusive</i> - the Project will build upon the ambitious <i>Inclusive</i> TI objectives of the Bank’s previous project with SRI (High Speed Rail Belgrade to Nis) by increasing the share of women within the Company and by devising internal practices and policies through a revision of HR policies and the design and implementation of an outreach campaign to promote SRI as an employer of choice, ultimately promoting equality of opportunity within the Company and aiming at attracting more female workforce.</li> </ul> <p><b><u>Additionality:</u></b> The Bank’s additionality is derived from (i) providing financing with a long tenor, not available in the market from commercial sources on reasonable terms and conditions, and from closing the funding gap; (ii) helping the Company to mitigate climate risk; and (iii) achieving higher gender standards and/or introducing equal opportunity measures.</p> <p><b><u>Sound banking</u></b> – The transaction is a sovereign loan.</p>
<b>Key Risks</b>	Key risks include: (i) macroeconomic and debt repayment risk which is mitigated by the stable rating and macroeconomic situation of Serbia as well as sustainable public debt level; (ii) implementation risk which is mitigated by the appointment of external contractors for the most challenging sections of the network; and (iii) cost over-run risk, mitigated by unit prices assessed based on recent tenders and the Company’s willingness to implement the Project without delay.
<b>Strategic Fit Summary</b>	The Project is aligned with: (i) the Strategy for Serbia; (ii) the Transport Sector Strategy; (iii) the GET approach; (iv) EBRD’s SPGE; (v) the Bank’s Equality of Opportunity Strategy.

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

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	Sovereign loan of up to EUR 50 million in favour of RoS for the benefit of SRI, a joint-stock company 100% owned by RoS. The loan will finance the procurement of goods (the “materials”) for the rehabilitation of rail tracks across the network on selected sections (the “Project”). The Project will help SRI enhance the quality of rail infrastructure by improving the operational speed and the reliability and safety of passenger and freight rail services. The Project will be implemented by SRI with the assistance of the MoCTI.
<b>Existing Exposure</b>	<u>Exposure to Serbia sovereign:</u> The Bank’s total sovereign portfolio exposure in Serbia as of the beginning of August 2024 was EUR 1.20 billion [REDACTED]
<b>Maturity / Exit / Repayment</b>	Maturity of 15 years [REDACTED]
<b>Potential AMI eligible financing</b>	n/a
<b>Use of Proceeds - Description</b>	The proceeds of the Bank’s investment will be used to finance the purchase of materials (goods) for the rehabilitation of rail tracks across on selected sections of Serbia’s rail network.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Republic of Serbia, represented by the Ministry of Finance;</li> <li>• Serbia Railways Infrastructure;</li> <li>• Ministry of Construction, Transport and Infrastructure.</li> </ul>
<b>Conditions to subscription / disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign loan.
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>• Project Agreement between the Bank, the Borrower (represented by the MoCTI) and SRI.</li> </ul>
<b>Associated Donor Funded TC and Blended Concessional Finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><u>Pre-signing:</u></p> <ul style="list-style-type: none"> <li>• <b>TC 1. Economic and technical analysis</b> including GET and Paris Alignment assessment – the assignment’s cost was EUR 36,250 and was funded by the Shareholder Special Fund (“SSF”). <i>Completed.</i></li> <li>• <b>TC 2. Environmental and social due diligence</b> – the assignment’s cost was EUR 34,880 and was financed by the SSF. <i>Completed.</i></li> </ul> <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> <li>• <b>TC 3. Operational Rail Safety Management System Technical Assistance</b> – This assessment will support SRI with the further development of its existing Safety Management System (“SMS”) to ensure it aligns with the EU requirements and is suitable for the current and future safe operations. The assignment cost is estimated at EUR 70,000 proposed to be financed by an international donor or the SSF.</li> <li>• <b>TC4. Support for Climate Change Adaptation Technical Assistance</b> – the assignment cost is estimated at up to EUR 50,000 proposed to be financed by an international donor or the SSF.</li> </ul> <p><b>B. Blended Concessional Finance</b></p>

	<p>n/a</p> <p><u>Reimbursement:</u> The above assignments will be non-reimbursable transactional TCs required to assist the Company in project preparation and implementation and institutional capacity building.</p> <p><u>Cost sharing:</u> <i>Parallel client contributions:</i> The Borrower is expected to make a parallel contribution in the form of payment of any VAT (currently at 20%), associated with the goods and post-signing TC assignments.</p> <p><i>In-kind contribution:</i> Additionally, the Company will also provide in-kind support in the form of office space, communication connections, etc., for the consultants to work, expected to amount to 3% of the total TC budget.</p>
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[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

Over the past few years, Serbia has strategically increased investments in the rail sector including in infrastructure, passenger and cargo transport following decades of underinvestment in the sector [REDACTED]. SRI, in particular, has been significantly investing in the rehabilitation and modernisation of its rail network with the EBRD's support. To date, SRI has been preparing and implementing projects for the reconstruction of approximately 1,000 km of railway lines. These projects include the high-speed rail line between Belgrade and Nis which is co-financed by the EBRD (High Speed Rail Belgrade-Nis Project). SRI has now decided to rehabilitate sections of its rail network which are in urgent need of renewals in order to enhance the safety and efficiency of rail operations. [REDACTED].

The Project will finance the procurement of materials and goods for the tracks renewal, split into 6 lots (lots 1 to 5 relate to track-related materials like rail sleepers, ballast, level crossing panels, etc., while lot 6 is for signalling, communications and power related materials). The procurement of materials and goods will be used for the urgent ballast replenishment, rail and sleepers replacements on sections spanning 194 km of 436 km of main lines, and 495 km of regional lines.

The Project will enable more efficient journeys and therefore make rail transportation more attractive than road transportation which is currently the main transport mode in Serbia. The Project will support Serbia's railway infrastructure development, contribute to its local and regional connectivity, and enhance competitiveness of rail transport, promoting modal shift to rail as a greener and sustainable transport mode. Furthermore, the Bank will support SRI in incorporating climate change adaptation measures into its operations by developing and

implementing an approach to systematically addressing climate change. The Project is 94% Green Economy Transition (“GET”) eligible.

The Project will build on the transition objectives of the previous project with SRI (High-Speed Belgrade to Nis Project) by further promoting female employment in the rail sector through higher share of women within SRI and improved HR policies and practices, developing SRI as an employer of choice for young women.

The Project is therefore consistent with the following strategies:

- The Strategy for Serbia by improving the transport network and supporting regional economic connectivity.
- The Transport Sector Strategy which acknowledges that “...railway plays a central role to create a multimodal, environmentally friendly, efficient and safe transport system”. As part of its Operational Approach, as it is stated in the Strategy, “The Bank will continue to engage in the rail sector, working across both the public and private sectors, financing infrastructure rehabilitation, upgrade or new construction, rolling stock renewal...Through its investments, the Bank will support the ongoing reforms in the region”.
- The EBRD’s Strategy for the Promotion of Gender Equality (“SPGE”) by promoting access to skills and employment.
- The Green Economy Transition (“GET”) approach, which acknowledges the potential for incremental activity in the rail sector to support the transition to low carbon economies.

## 1.2 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 50%.</i>	All use of proceeds are going towards rail infrastructure resulting in a GET share of 94%.
1.2	<i>The project supports the Green quality [scored 60]</i>	The Company will benefit from technical assistance to devise an action plan to introduce climate change adaptation into its operational practices. This action plan will help the Company’s maintenance department in integrating climate change adaptation into its operational and maintenance practices. This is in continuation of the Company’s efforts to develop a comprehensive asset register to consolidate data on asset locations and descriptions, which will support future asset condition monitoring.

### Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>DIVERSITY: The Project introduces more open, equal and diverse HR policies and</i>	The Company has a total of 5,786 employees [REDACTED]. In the context of promoting women inclusion in the railway sector and supporting the



	<i>practices, broadening demand for human capital with demonstrably moderate need and limited effectiveness</i>	<p>Company in becoming an employer of choice for women, the Project will help the Company increase the number of women throughout different positions in the Company by 2 percentage points. This is expected to result in an increase of the number of female employees from 1,214 to 1,330.</p> <p>According to the European Transport Workers Federation, the EU average share of women in the railway sector is 20%, which means that, by achieving 23%, the SRI will be outperforming many EU peers in terms of gender equality. [REDACTED]. The Project will focus on positions requiring secondary technical and tertiary education. Specifically, the Project is expected to enable increases in the share of women among train dispatchers, telecommunication electro-technicians, transportation engineers and electrotechnical engineers.</p>
2.2	<i>DIVERSITY: The Project delivers inclusive business policies, practices or standards at the company level with verifiable commitment within 1-2 distinct behavioural change areas</i>	<p>The Company will further build on the equality of opportunity measures being implemented within the previous transaction with SRI (High Speed Rail Belgrade to Nis). A gender assessment is underway that has informed the design of the Project's Inclusive TI objectives, while the actions will be further specified upon completion of the assessment and identification of specific measures.</p> <p>On the basis of the ongoing gender assessment the Company will design and introduce measures to promote a family friendly work environment, recruit and support career progression for women, into HR policies and practices. This will also include targeted outreach focused on young women, publicizing the Company's new HR policies and promoting SRI as an employer of choice for women through dedicated visits to universities and focused job advertisements. Examples of such measures include: flexible working hours, childcare support, dedicated mentorship programmes, stipends for female students, etc.</p>

**Delivery risks:** [REDACTED] This risk is mitigated by (i) the Government's continued commitment to invest in railway sector and reforms; (ii) the Project's high priority for the Government of Serbia and the Company; (iii) EBRD mobilised TC to support the implementation of the transition objectives; and (iv) the Bank's continuing policy dialogue with the Government of Serbia.

### 1.3 ADDITIONALITY

Identified triggers	Description
<i>No triggers identified</i>	<i>n/a</i>
Additionality sources	Description of additionality sources
<b>Financing Structure</b>	

- EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project.	Proposed 15-year tenor [REDACTED] and loan size of EUR 50 million cannot be obtained from local commercial banks.
<b>Risk mitigation</b>  - EBRD helps the Company to mitigate <b>carbon transition risks</b> and take climate action, such as to move along a low carbon transition pathway.	The upgrade of the railway infrastructure will enable more efficient and safer train operations, ultimately promoting a modal shift towards rail transportation.
<b>Standard-setting: helping projects and clients achieve higher standards</b>  - <i>Gender SMART</i> : Client seeks/makes use of EBRD expertise for the adoption of <b>gender standards and/or equal opportunities action plans</b> (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain).	The Project will build on the <i>Inclusive</i> objectives of the Bank's previous project with SRI (High Speed Belgrade to Nis) with a specific focus on gender issues by increasing the share of women within the Company while implementing community outreach activities focused on young women to attract them to the railway sector or to prompt them to enrol in railway sector higher education.

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/Macro-economic risk	Medium/High	RoS will service the loan's debt repayment. As such, the fiscal and macroeconomic situation of the Serbia has a direct impact on the capacity to service the debt. <b>Mitigant:</b> Serbia's rating (BB+/BB+/Ba2) is underpinned by a track record of macroeconomic stability and credible policy framework. The exchange rate vis-a-vis EUR is managed very tightly, supported by the adequate level of international reserves and robust FDI inflows. Public debt stood at 48% of GDP at Q1 2024. IMF assesses the public debt to be sustainable with high probability and projects it to decline over the medium term, supported by the authorities' commitment to fiscal consolidation and continuation of economic growth.
Implementation risk	Medium / High	The Company plans on implementing most of the Project (i.e. carrying out the works) itself with its existing staff and in-house maintenance capacity. Despite the Project being quite straightforward, some rehabilitation and maintenance works are quite advanced [REDACTED]. <b>Mitigant:</b> The Company is aware that the works on some specific parts of the network are more challenging and is planning to hire external contractors to carry out the works. The Company is expected to complete the implementation in a relatively short period of time [REDACTED] displaying the importance of the Project and the Company's commitment to it. The Company will also approve a work plan and budget [REDACTED] capturing the Project scope.

Cost over-run risk	Medium/ Medium	<p>The risk of cost increases is linked to recent inflationary pressures which could increase unit prices of the goods to be procured and therefore push the budget over the limit. Delays in the Project would increase that risk.</p> <p><b>Mitigant:</b> The Company completed groundwork on pricing the items including transport of bulk materials (ballast) based on recent tenders which mitigates the cost over-run due to outdated unit prices. Furthermore, the unit prices have been assessed by an independent technical consultant and were deemed appropriate. The Company is planning on carrying the procurement under one tender (with several lots) that will be launched in advance of the loan signing which will greatly reduce the risk of the cost overrun.</p>
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## 2. MEASURING / MONITORING SUCCESS

### Transition Impact Monitoring Indicators

#### Primary Quality: Green

<i>Obj. No.</i>	<i>Monitoring indicator</i>	<i>Details</i>	<i>Baseline</i>	<i>Target</i>	<i>Due date</i>
1.1	CO2e emissions reduced (tonnes/year)	The Project is expected to support the modal shift from road to rail transportation, resulting in an expected CO2 emissions reduction of 15,251 tonnes per year.	0	15,251	[REDACTED]

#### Secondary Quality: Inclusive

<i>Obj. No.</i>	<i>Monitoring indicator</i>	<i>Details</i>	<i>Baseline</i>	<i>Target</i>	<i>Due date</i>
2.1	Share of female employees in total number of employees	The Project will aim to increase the overall share of women in the Company by 2%.	21%	23%	[REDACTED]
2.2	Practices of the relevant stakeholder improved (equal opportunities policies and practices)	Revised HR policies and practices to be determined on the basis of the ongoing gender assessment in order to encourage recruitment and career progression of women as well as outreach activities to promote the company as an	No	Yes	[REDACTED]

		employer of choice highlighting the new HR policies.			
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### Additional Indicators

<i>Indicator type</i>	<i>Monitoring indicator</i>	<i>Details</i>	<i>Baseline</i>	<i>Target</i>	<i>Due date</i>
Advisory & Policy Indicators	Share of female employees in total number of employees. [REDACTED]	The Project will aim to increase the overall share of women in the Company by 2%.	21	23	[REDACTED]

## 3. KEY PARTIES

### 3.1 BORROWER

The Borrower is RoS represented by the Ministry of Finance. RoS is currently rated BB+/positive by Standard & Poor's (April 2024), Ba2/Stable by Moody's (March 2024) and BB+/Stable by Fitch (Feb. 2024).

After experiencing a pandemic-induced recession of 1% in 2020 and robust expansion of 7.7% in 2021, GDP growth stabilized in 2023 at the same level as in 2022 (around 2.5%), above expectations, despite global slowdown, and geopolitical tensions from the war in Ukraine. Serbia has limited direct links with Russia, with the exception of energy imports, which limited the adverse effect on economic activity. In Q1 2024, economic activity grew at a rate of 4.7%, driven by services, particularly related to trade and hospitality sector, and IT services, as well as construction. Economic growth is to rise close to its medium-term potential at 3.5% for the rest of the year, and further to 4% in 2025 (EBRD REP May 2024), in line with expected global recovery.

Public debt remains elevated, above the 45% pre-pandemic: it increased from 52.8% of GDP in 2019 to 57.8% of GDP in 2020 before declining to 52.3% of GDP by end-2023. Due to higher forecasted GDP in 2024, public debt to GDP ratio decreased further to 48% in Q1 2024. In June 2024, Serbia issued its first 10-year sustainability bond in the amount of USD 1.5 billion, with a 6% coupon rate. The bond is expected to be used for projects such as the construction of the Belgrade metro, the Belgrade-Budapest railway line, projects related to recycling, improving energy efficiency, etc. Public debt is set to gradually decline to 43.8% of GDP in 2028, conditional on the implementation of feasible fiscal adjustment measures, including those part of the ongoing Stand-By Agreement (SBA), with the IMF, guided by a revamped deficit-based fiscal rule that is also incorporating a debt anchor. The risk assessment from the December 2023 IMF Staff Report assesses the likelihood and impact of sovereign debt distress as medium, mitigated by the access to the IMF SBA and bilateral creditors.

### 3.2 CLIENT

The Client and beneficiary of the Project is SRI, a Joint Stock Company established in August 2015 as the sole national railway infrastructure asset management company of Serbia, is the beneficiary and implementing entity of the Project. SRI is one of the three operating companies, created through the unbundling of the vertically-integrated JSCSR prompted by

the willingness to be aligned with EU requirements<sup>3</sup> and foster commercial efficiency in the railway sector.

The Company is fully owned by RoS, represented by the MoCTI, and is responsible for the management of the infrastructure, construction, maintenance and operation of the railway network. Revenues stem from track access fees paid by operators and subsidies from RoS. In 2023, around 5.8 million train-km of freight occurred on the network and 8.2 million train-km of passenger transportation. [REDACTED].

#### **4. MARKET CONTEXT**

SRI manages a network of 3,348 km, with 3,059 km single track and 289 km of double track, including a total of 1,274 km electrified lines. SRI provides infrastructure availability and traffic management services to 18 railway operators in Serbia (such as Serbia Voz for passenger transportation and Serbia Cargo and other freight operators for freight transportation).

The railway infrastructure network has been neglected for the past decades and lack of maintenance has led it to become in poor condition with temporary speed restrictions, disturbances and unscheduled service outages. For instance, on nearly 60% of the network, the maximum allowed speed is 60 km/h while only 5% of the network allows speeds above 100 km/h. [REDACTED]. Safety also needs to be improved to reduce potential derailments, power outages and risk of accidents.

The development of the railway sector is a high priority for RoS, which seeks to increase competitiveness of the railway sector. RoS signed the Transport Community Treaty in July 2017 alongside four other Western Balkans countries, which aims at a better integration of transport networks, especially railways networks in the region.

SRI's Network Statement establishes a series of categories of charges, track-access charges ("TAC"), according to the type of line, traction and weight of the trains.

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<sup>3</sup> Directive 34/2012/EU of the European Parliament and of the Council of 21.11.2012 "Establishing a single European railway area".

## 5. FINANCIAL / ECONOMIC ANALYSIS

### 5.1 FINANCIAL ANALYSIS

[REDACTED]

### 5.2 ECONOMIC ANALYSIS

[REDACTED]

### 5.3 SENSITIVITY ANALYSIS

[REDACTED]

### 5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised B (2019 ESP). Environmental and social ("E&S") due diligence ("ESDD") was conducted by an independent consultant, including a company audit and assessment of E&S project risks and impacts in line with EBRD's E&S Policy and Performance Requirements ("PRs"). The ESDD findings showed that the Company has recently adopted the E&S Policy (February 2024). SRI currently lacks an Environmental and Social Management System ("ESMS") but plans to develop an ESMS in line with ISO 14001 standard, with development starting in 2024 and completion date expected within 12 months. According to national legislation, Project activities do not require an environmental impact assessment or environmental permits. [REDACTED] Maintenance activities will be performed by both the Company itself (for less complex works) and by third parties (for more complex works and those requiring specialised equipment). A project-specific Environmental and Social Management Plan ("ESMP") has been prepared for the project as part of the ESDD. ESDD has identified areas for improvement required to structure the Project to align with the Bank's 2019 PRs. These have been included in an Environmental and Social Action Plan ("ESAP") which has been agreed with the Company.

The Company fully complies with the national Labour Law. The Contractors will be required to comply with the national labour law, as well as to implement an internal grievance mechanism for workers to fully comply with PR2, as stipulated by the ESAP.

The implementation of the Project will result in substantial waste and waste materials, including hazardous materials (wooden sleepers, contaminated ballast, oils, and electrical components). To ensure effective waste management, measures including proper handling and storage of wooden sleepers, timely disposal, and updates to the Company's Waste Management Plan are stipulated in ESAP. On-site supervision of Contractor's practices and adherence to waste management laws must be ensured in line with the ESAP.

The Project is expected to enhance railway safety in Serbia by improving the condition of ballast, track and other structures. The project-specific ESMP includes appropriate measures for managing the transport and handling of hazardous substances.

The Project will be implemented within the existing Right of Way (“RoW”) and no additional land acquisition is required. Identification of the locations of the Project area in relation to the biodiversity protected areas and internationally recognised sites was made to identify any potential impacts on the conservation objectives of these. Since the works will be within existing RoW and considering the small-scale and short duration, and nature of the maintenance activities, these are not anticipated to represent a risk to biodiversity of protected areas.

Since the works are being carried out on an already built railway and will involve the upper level of the railway without any excavation, there is no possibility of affecting the nearest cultural heritage sites which are up to 20 meters away from the railway, and there is no risk of discovering unknown cultural and archaeological assets.

The Stakeholder Engagement Plan ("SEP") has been prepared for the Project and includes a grievance mechanism to address complaints of external stakeholders, in line with the ESAP. Both SEP and Non-Technical Summary will be publicly disclosed in English and local language. The Bank will monitor the implementation of the Project through review of annual monitoring reports and visits as required.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of 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.

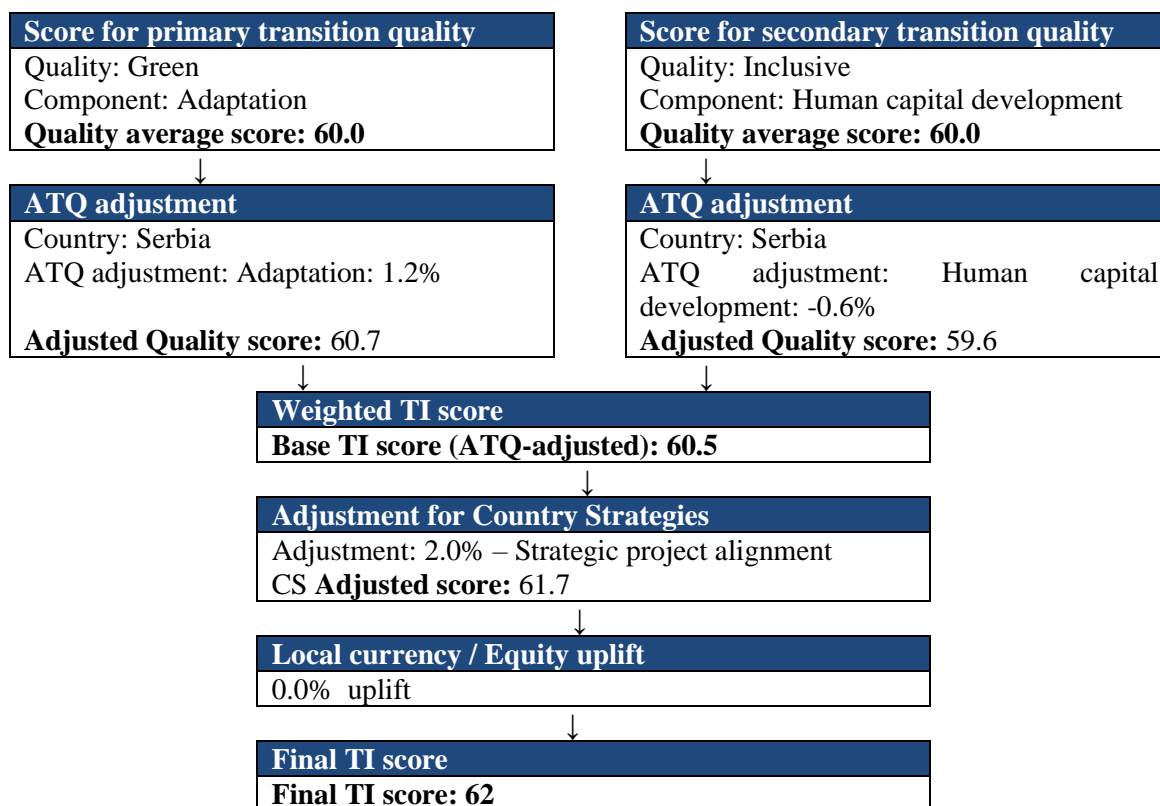
**ANNEXES TO OPERATION REPORT**

ANNEX 1	SHAREHOLDING STRUCTURE
ANNEX 2	TRANSITION IMPACT SCORING CHART
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	PROJECT IMPLEMENTATION



**ANNEX 1 – SHAREHOLDING STRUCTURE**

## ANNEX 2 – TRANSITION IMPACT SCORING CHART



## ANNEX 3 – GREEN ASSESSMENTS

### **Introduction**

The Project consists of rehabilitation of existing rail infrastructure. The project is assessed for Paris Agreement (PA) alignment and GET. As a sovereign transaction, Climate-related Financial Risk is low. The project is assessed as positively aligned for both mitigation and adaptation goals of the Paris Agreement. The project is attributed as 94% GET.

### **Paris alignment assessment**

#### ***General screening of 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'.

The project is included in the 'aligned list' under the category 'rail infrastructure'. As such the project is considered aligned with mitigation goals of the Paris Agreement.

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

Steps 1 & 2: As part of the technical due diligence a preliminary climate change vulnerability and risk assessment indicated that the project is sensitive to the climate change, in particular, to the risk of increase of precipitations, floods and extreme heat. Given the nature of the project, whereby interventions are undertaken on small sections of track across the network, the PA alignment for BB2 follows a corporate level approach, in line with Chapter 4 of the EBRD PA methodology. In this respect, a post-signing technical assistance is incorporated into the project. The TA will support SRI to address climate change impacts and their incorporation in the SRI asset management setup.

The scope of this work will include the following elements:

- understanding of the current baseline for asset management work in SRI;
- understand the national frameworks and data availability in relation to weather and climate change impacts;
- building capacity in SRI to incorporate the effects of climate change in SRI's decision making:
  - identify the minimum information required to monitor SRI's exposure in relation to each of the weather-related risks<sup>4</sup> as they apply to different SRI asset groups;
  - undertaking a vulnerability assessment for all asset groups in an order of priority of risks<sup>5</sup> and criticality of assets, determined jointly with the SRI;
  - recommending suitable updates to the Railway Directorate's maintenance rulebook and the planning element of SRI maintenance procedures.
  - ensuring alignment with the nationally approved procedures for hazard identification and assessment, carried out by the Ministry of Internal Affairs in Serbia
- developing a tailored roadmap for SRI to fully incorporate weather-related risks in a practical and scalable manner, in its asset management system;

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<sup>4</sup> Include hot weather, heavy rain, seasonal rainfalls and flooding, high winds, heavy snow and ice, lightning and storms.

<sup>5</sup> Preliminary diagnostic established that SRI requires an immediate support with understanding of the impact of hot weather on track assets.

- identifying resources required for an adequate monitoring and interpretation of weather-related risks.

Step 3: The project is unlikely to have a broader impact on the climate resilience of the system in which it operates.

As the project satisfies all three steps of the BB2 assessment, the project is considered as aligned with the adaptation goals of the Paris Agreement.

## **GET attribution**

### GET mitigation finance

The project use of proceeds are dedicated to rehabilitation of rail infrastructure. This falls under the jMDB category “8.3. Inter-urban railway projects for freight or passengers” and meets associated eligibility criteria. The project is estimated to result in emissions savings of 15,251 tCO<sub>2</sub>/year, due to avoided disruption of the network and consequential avoided reverse modal shift to road transportation. Fossil fuel transit share is estimated at 8% of total traffic on the infrastructure (noting that there is a decreasing trend). In line with the GET handbook, the project is attributed as 92% GET for mitigation.

### GET adaptation finance

A GET share of 20% is attributed to this project following the methodology set out in the GET Handbook. The three step approach in line with j-MDB methodology for attribution of climate adaptation finance is presented below.

#### ***Step 1 – Climate vulnerability context***

As part of the technical due diligence a preliminary climate change vulnerability and risk assessment indicated that the project is sensitive to the climate change, in particular, to the risk of increase of precipitations, floods and extreme heat.

#### ***Step 2 – Statement of intent***

The EBRD will engage a consultant to support the Company to a mainstream CC adaptation into the project and subsequent activities.

#### ***Step 3 – Link between climate vulnerability and project activities***

The TA will support SRI to address climate change impacts and their incorporation in the SRI asset management setup.

The GET adaptation finance assessment is based on reductions in both weather-related damage to the rail infrastructure and weather-related disruption to traffic on the rail network, that result from financing and implementing the project. Following the GET adaptation the project:

- Delivers physical Climate Resilience Outcome (CRO), specifically in response to extreme heat and floods (+10% GET). This is anticipated to avoid disruption to railway operations that may arise from accelerated asset degradation and failure, safety consequences leading to temporary speed restrictions, or reduced stability of earthworks and / or cuttings.
- The client has committed to assess and manage physical climate risks on an ongoing basis through the development and implementation of the roadmap.

The GET adaptation attribution of the project is therefore 20%.

The total GET share, combining mitigation and adaptation, is 94%, consisting of:

- 92% mitigation across all use of proceeds
- 20% adaptation across all use of proceeds

When combined, this equates to 92% mitigation + (8% non mitigation GET\*20%) =~94% GET. [REDACTED].

## ANNEX 4 – PROJECT IMPLEMENTATION

### Project risk assessment:

[REDACTED]. The procurement strategy envisages that the Client will launch in advance only one (1) tender with six (6) six lots for procurement of basic equipment and materials for railways rehabilitation. These are common off-the-shelf goods which the Client procures on regular basis. The Bank's technical due diligence did not identify any potential challenges for procuring such goods.

### Project implementation arrangements:

The Company will utilise the existing PIU established in January 2018 for the implementation of JSC Serbia Railways – I Project. The PIU will be supported by the PIA who will provide extensive training to the PIU staff.

### Procurement arrangements:

The Project envisages one (1) single stage open tender with six (6) six lots for procurement of basic equipment and materials.

The contract(s) will be procured through single stage open tender in accordance with Chapter 3 of the Bank's PP&R for public sector operations.

The EBRD's standard tender documents for works, goods and consultancy services will be procurement of these contract.

All contracts will be subject to prior review by the Bank.

In addition, the Project will benefit from two post-signing grant funded TC contracts covering (i) Operational Rail Safety Management System Technical Assistance, and (ii) Support for Climate Change Adaptation Technical. These two contracts, with a value of EUR 70,000 and EUR 50,000 respectively, will be procured as direct contract assignments by PODD under the existing ESD managed framework contracts with specialized suppliers of such services.

The procurement strategy for the Project including the description of the contracts, their estimated values, and timelines for implementation is presented in the indicative procurement plan below. [REDACTED].