

DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 15 December 2021<sup>1</sup>

**SERBIA**

**SERBIAN SOLID WASTE PROGRAMME**

*[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.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

AFD	French Development Agency
Capex	Capital Expenditures
CO <sub>2</sub>	Carbon dioxide
CPI	Consumer Price Index
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
EU	European Union
EURIBOR	European Interbank Offered Rate
GET	Green Economy Transition
GHG	Greenhouse Gases
GDP	Gross Domestic Product
IMF	International Monetary Fund
LARF	Land Acquisition and Resettlement Framework
LTIP	Long-Term Investment Program
m	Million
MBT	Mechanical Biological Treatment
MEI	Municipal and Environmental Infrastructure
MoEP	Ministry of Environmental Protection
MoF	Ministry of Finance
MRF	Material Recovery Facility
NTS	Non-Technical Summary
NWMP	National Waste Management Programme
PIP	Priority Investment Period
PIU	Project Implementation Unit
PP&R	Bank's Procurement Policy & Rules
RSD	Serbian Dinar
RUC	Regional Utility Company
RWMC	Regional Waste Management Centre
RWMP	Regional Waste Management Plan
RWMS	Regional Waste Management System
SEP	Stakeholder Engagement Plan
TC	Technical Cooperation
TS	Transfer Station

**CURRENCY CONVERSION**

(as of 3 November 2021)

EUR 1 = RSD 117.65

## 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 Borrower in the amount of up to EUR 75 million to finance the development of modern solid waste management systems in Serbia across seven solid waste (“**SW**”) regions. The proposed loan will consist of two tranches: (i) the first tranche of up to EUR 50 million, to be committed at signing (“**Tranche 1**”) and (ii) the second tranche of up to EUR 25 million, uncommitted (“**Tranche 2**”). The Ministry of Environmental Protection (“**MoEP**”) will be responsible for implementing the Project, which will be co-financed with the French Development Agency (“**AFD**”).

Tranche 1 will finance four regional waste management systems (“**RWMS**”) in Kalenic, Sombor, Duboko and Nova Varos SW regions, covering 29 municipalities with a combined population of over 900,000 (i.e. approximately 13 per cent of the Serbian population). Tranche 2 will finance three RWMS in Pirot, Pozarevac or Indija, and Sremska Mitrovica SW regions and several multi-regional primary sorting system. In addition, the Project aims to increase waste collection and to promote in-household source separation and circular economy of recyclable waste.

The expected transition impact of the Project is derived from the Green quality. The Project is expected to reduce CO2 emission by around 178,000 tonnes per year (70 per cent), and increase recycled waste amount [REDACTED]. The Project is also expected to result in improvement of the regional SW companies in terms of governance and operations, in order to ensure sustainability of the investments. The Project includes policy dialogue to support improvement of Serbia’s SW management system at both the national and regional level. The Bank will support the MoEP and regional SW companies in preparing Regional Waste Management Plans (“**RWMP**”), and will covenant the adoption of RWMPs by no later than two years after the signing of the loan agreement.

TC support for this operation has been provided by the EBRD Shareholder Special Fund.

I am satisfied that the operation is consistent with the Bank’s Strategy for Serbia, the Municipal and Environmental Infrastructure Sector Strategy, the Bank’s Green Economy Transition Approach 2021-2025 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 - Serbian Solid Waste Programme - DTM 52642</b>	
<b>Transaction / Board Decision</b>	<p>Board approval<sup>2</sup> is sought for a sovereign loan of up to EUR 75 million to the Republic of Serbia (the “<b>Borrower</b>”, the “<b>Client</b>”) consisting of two tranches: (i) up to EUR 50 million to be committed at signing (“<b>Tranche 1</b>”), and (ii) an uncommitted tranche of up to EUR 25 million, to be committed at Bank’s sole discretion following completion of due diligence (“<b>Tranche 2</b>”) (jointly, the “<b>Project</b>”). The Project cost of EUR 150 million will be co-financed with the AFD. The AFD has agreed to follow EBRD’s Procurement Policies and Rules (“<b>PP&amp;R</b>”), as well as EBRD’s Environmental and Social Policy (April 2019).</p> <p>The loan proceeds of Tranche 1 will be used for construction or expansion of four RWMSs in Kalenic, Sombor, Duboko and Nova Varos SW regions. The loan proceeds of Tranche 2 will be used for construction of three RWMSs in Pirot, Pozarevac or Indija, and Sremska Mitrovica SW regions and a multi-regional primary sorting system within several existing SW regions. Approval of the commitment of Tranche 2 will be subject to a separate Board approval. For both tranches, the loan proceeds will also be used for financing studies and designs, works supervision, and technical assistance. The procurement and implementation support for Tranche 2 will be loan financed.</p>
<b>Client</b>	The Client is the Republic of Serbia, represented by the Ministry of Finance (“ <b>MoF</b> ”) and the Ministry of Environmental Protection (the “ <b>MoEP</b> ”) that would be in charge of project implementation. The ultimate beneficiaries will be the public utility companies responsible for the management and operation of the RWMSs.
<b>Main Elements of the Proposal</b>	<p><b><u>Transition impact:</u></b> Primary Quality is Green (GET Direct Track): The Project is expected to reduce annual GHG emissions by around 178,000 tonnes CO<sub>2</sub>e per year and increase waste recycled [REDACTED]. The Project qualifies for two uplifts based on: (i) significant environmental benefits resulting in reduction of GHG emissions beyond quantitative physical scale thresholds of 110,000 tonnes per year; and (ii) RWMPs related policy dialogue.</p> <p><b><u>Additionality</u></b> – (i) Financing structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions; (ii) Risk mitigation - EBRD helps the client to mitigate carbon transition risks and take climate action; (iii) Standard-setting - Client seeks EBRD expertise on best international procurement standards; and gender additionality by promoting equal opportunities for women e, (iv) Knowledge, innovation and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project’s objectives, including support to strengthen the capacity of the client.</p> <p><b><u>Sound banking</u></b> – The transaction is a sovereign loan.</p>
<b>Key Risks</b>	Key risk include implementation risk due to the MoEP’s lack of experience with EBRD’s PP&R and will be mitigated through the appointment of procurement and project implementation unit (“ <b>PIU</b> ”) consultancy support and an independent supervision engineer.
<b>Strategic Fit Summary</b>	The Project is in line with the Bank’s Strategy for Serbia, Green Economy Transition Approach 2021-2025 and the Municipal and Environmental Infrastructure Sector Strategy.

<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 75 million consisting of two tranches: Tranche 1 of EUR 50 million will be committed at signing, and an uncommitted Tranche 2 of EUR 25 million, will be committed at Bank's sole discretion following due diligence.
<b>Existing Exposure</b>	As of October 2021, the Bank's total amount of sovereign portfolio in Serbia was EUR 848 million [REDACTED], and operating assets for sovereign loans was EUR 450 million.
<b>Maturity / Exit / Repayment</b>	15-year tenor [REDACTED].
<b>Use of Proceeds</b>	<p>The loan proceeds of Tranche 1 will be used for construction or expansion of four RWMSs in Kalenic, Sombor, Duboko and Nova Varos solid waste regions. The loan proceeds of Tranche 2 will be used for construction of three RWMSs in Pirot, Pozarevac or Indija, and Sremska Mitrovica SW regions and a multi-regional primary sorting system within several existing SW regions. The details of the Project are presented in Annex 1.</p> <p>The Bank's use of proceeds will be controlled via the application of the Bank's Procurement Policies &amp; Rules and the Disbursement Handbook for public sector projects complemented by regular reporting on the overall project implementation as covenanted in the loan agreement. In addition, the Client will be supported by a dedicated PIU benefitting from implementation consultancy, which will assist in ensuring adequate application of EBRD requirements, including use of proceeds ones.</p>
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• The Ministry of Finance;</li> <li>• The Ministry of Environmental Protection;</li> <li>• Project Entities: <ul style="list-style-type: none"> <li>- Regional waste management centre "Eko-Tamnava d.o.o.";</li> <li>- Public Utility Company "Duboko";</li> <li>- Regional sanitary landfill "Banjica d.o.o. Nova Varos";</li> <li>- City of Sombor and project entity to be established for Sombor region; and</li> <li>- Project entities for Phase-2 as designated in the Tranche 2 commitment notice.</li> </ul> </li> </ul>
<b>Conditions to effectiveness</b>	[REDACTED]
<b>Conditions to disbursement</b>	[REDACTED]
<b>Key Covenants</b>	Satisfactory implementation of the ESAP and compliance with the EBRD Environmental and Social Policy relating to the project preparation activities.
<b>Security / Guarantees</b>	None (sovereign loan)
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>• Project Agreement between the Bank, the MoEP, and the Project Entities [REDACTED].</li> </ul>
<b>Associated Donor Funded TC and co-investment grants/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>TC1: Environmental and social due diligence</b> including preparation of all environmental and social aspects of project implementation of the Kalenic subproject [REDACTED].</li> </ul> <p><u>Post Signing:</u></p>

	<ul style="list-style-type: none"><li>• <b>TC2: PIU and procurement support for Tranche 1</b>, including providing support in preparing the tender documents, evaluation of tenders and the contract award [REDACTED].</li></ul> <p><b>B. Co-investment grants / Concessional Finance (Non-TC)</b> None.</p> <p><i>Cost Sharing:</i> Client contributions are not required for pre-signing TCs as it is mainly for the benefit of the Bank. In regards to post-signing TC, no cash contribution is sought since the Client is a public sector entity with limited ability to make cash contributions. The Client, however, is will contribute to the design, implementation, supervision and capacity building to be paid from the proceeds of the Loan. [REDACTED].</p>
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## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

[REDACTED]. [There is] a major deficit in solid waste management infrastructure in Serbia, whether at the level of collection, treatment, recovery or final disposal. The sanitary landfills currently in operation cover less than 25 per cent of the Serbian population. In comparison with EU countries, organic waste represents a high proportion of the total residual waste, and the recycling rate is very low [REDACTED], in connection with the absence of collection / recycling channels formalized at the level of the vast majority of local authorities in the country.

This lack of waste treatment and disposal infrastructure in turn generates serious environmental problems in terms of pollution of air, soil and rivers, with impacts on environment and human health throughout the region. This topic is identified as the major environmental challenge on the way to Serbia's accession to the EU, with investment needs under the convergence with the “Acquis communautaire” (Chapter 27) [REDACTED], to allow the country to gradually catch up with its European neighbours.

Serbia is working in this perspective to align its legislation to the EU and integrate the modernization of infrastructure as well as the transition to a circular economy as a central element of its new National Waste Management Programme (“NWMP”) 2021-2024. The NWMP, prepared with the assistance of the EU and pending adoption (public consultations were finalised in October 2021), include ambitious objectives in terms of the rate of recycling and elimination of biodegradable waste in landfills - respectively 35 per cent by 2030 and 50 per cent by 2032.

The Project will support establishment of EU-compliant landfills and introduction of waste sorting and recycling, biodegradable waste treatment and recovery and supporting infrastructure. In addition, the Bank will support the MoEP in preparation of the Regional Waste Management Plans (“RWMPs”) through loan-funded technical assistance and external consultants. The RWMPs will define waste management activities in each solid waste region financed by the Project in line with the NWMP. The objective of RWMPs will be to increase waste collection, maximise the reduction and reuse of waste and the recovery of materials from recycling, increase waste separation at source, and protect the environment and health by preventing and reducing negative impacts related to waste production and management. [REDACTED].

The Bank will also support the MoEP with establishment of a proper institutional set-up for regional waste management services including (i) strengthening the regional utility companies (“RUC”) in terms of operations and governance, and establishment of RUCs where currently does not exist, (ii) training of the staff at the MoEP, related municipalities, and RUCs, (iii) promoting circular economy and raising public awareness, and (iv) improving waste data collection and management systems.



Serbia has a credible climate commitment for the sector to move towards decarbonisation, and is in the accession process to become a member of the EU. Serbia has been part of the United Nations Framework Convention on Climate Change (“UNFCCC”) since 2001 (non-Annex 1 Party) and the Kyoto Protocol since 2008 as a developing country, and ratified the Paris Agreement in 2017. It submitted its Intended National Determined Contribution to the UNFCCC in June 2015 whereby it committed to reduce, by 2030, its greenhouse gas emissions (“GHG”) by 9.8 per cent compared to 1990 as the baseline year. The MoEP is in charge of coordinating climate change policy in the Republic of Serbia. Currently, Serbia is also preparing a **revised NDC** and the latest draft identifies increased climate ambitions. By 2030, Serbia is now aiming to reduce its GHG emissions by 33.3 per cent compared to 1990 level (i.e. 13.2 per cent compared to the 2010 level). The revised NDC is expected to be adopted and submitted to UNFCCC by the end of 2021.

Serbia is one of the signatories of the Sofia Declaration on the Green Agenda for the Western Balkans, which has been adopted by the all leaders from the Western Balkans in November 2020, where they committed to working towards the 2050 target of a carbon-neutral continent together with the EU.

The Project is consistent with the Bank’s Strategy for Serbia which identifies support to green economy by promoting sustainable practices as a strategic priority, the Municipal and Environmental Infrastructure Sector Strategy, and the Green Economy Transition Approach 2021-2025. The Project delivers GET by actively using public channels of transition impact within the Bank’s mandate to deliver energy efficiency and climate change mitigation outcomes, which is fully in line with the GET approach.

## 1.2 TRANSITION IMPACT

### Primary Quality: Green

Obj. No.	Objective	Details
1.1	The percentage of EBRD use of proceeds allocated to the project that qualifies as GET is 50% or higher.	The Project will promote resource efficiency by introducing sustainable waste management practices in the regions through the construction of sanitary landfills designed to EU standards, and implementation of material recovery facilities, composting plants, and a primary sorting system. The Project is expected to contribute to GHG emissions savings and result in significant health and environmental benefits. The percentage of EBRD proceeds allocated to the Project’s Tranche 1 qualifying as GET is 100 per cent. The GET share of Tranche 2 will be confirmed following due diligence and prior to Tranche 2 commitment.
1.2	The environmental impact of the project is expected to meet or exceed one or more of the quantitative	GHG reduction (Scope 1 and Scope 2) is expected to be around 178,000 tonnes of CO2 equivalent per year; hence, above the

	physical scale thresholds as outlined in the GET TI assessment methodology.	threshold of 110,000 tonnes of CO2 equivalent per year.
1.3	The project entails a package of policy dialogue, which fulfils the following conditions: a) The dialogue covers one or more green topics related to the GET approach; b) The dialogue aims to achieve a clear policy outcome (e.g. regulatory change); c) A relevant counterparty (normally Governmental authorities), which is in a position to implement the policy reform, is part of the dialogue; d) The policy outcome has a systemic and long term impact beyond project boundaries so it will influence other stakeholders and result in structural change; e) The dialogue is new in the context of the market/country/industry and is aligned with international best practices, and where relevant, the reform priority areas identified by EBRD's country strategy; and f) The dialogue has a well-defined budget, resources, work plan and timeline as well as appropriate benchmark indicators that monitor success in implementation.	[REDACTED] [T]he Serbian Government is expected to adopt the National Waste Management Programme, aligned with EU standards. EBRD and AFD will support the authorities through loan-funded technical assistance [REDACTED] with the development of Regional Waste Management Plans ("RWMPs") for 4 subprojects financed under the Tranche 1, which will regulate topics including the waste collection, recovery of materials, waste-to-energy, protecting environment and health by preventing and reducing negative impacts related to waste production and management; and improving waste separation at source, among others. The policy dialogue would have a systemic and long-term impact, affect all stakeholders, and result in structural change. The development and adoption of RWMPs by no later than two years after the signing will be covenanted in the loan agreement.

**Delivery risks:**

[REDACTED]. [I]mplementation and timing of CO2 reductions will be mitigated through the appointment of a procurement and PIU consultancy support. The implementation will be supervised by a Supervision Engineer. The Project will be cofinanced with AFD on 50:50 pari-passu basis. The AFD has agreed to follow EBRD PP&R, as well as EBRD's Environmental and Social Policy (April 2019). The EBRD and AFD will agree to the common Environmental and Social Action Plans [REDACTED].

Serbia is committed to improvement of the waste management sector and is investing significant funds for project development. Adoption of adequate regulatory framework is a key prerequisite for securing long-term sustainability of the investments, which is the focus of current Government which plans to adopt NWMP and new Waste Management Law [REDACTED]. The RWMPs will be crucial in delivering NWMP's goals which mitigates the risks related to policy dialogue results.

**1.3 ADDITIONALITY**

Identified triggers	Description
The project's overall PD rating is at or better than 'one notch below investment grade' [REDACTED]	[REDACTED]

Additionality sources	Evidence of additionality sources
<p><b>Financing Structure</b> 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.</p> <p>EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.</p> <p>Public sector: EBRD investment is needed to close the <b>funding gap</b>. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</p>	<p>The Bank provides long-term financing of 15 years, [REDACTED] which is not readily available in Serbia from local or international commercial banks. The proposed tenor is above the market average, and is necessary to structure the Project and close the funding gap. [REDACTED].</p>
<p><b>Risk Mitigation</b> 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.</p>	<p>The Project will support development of pre-feasibility and feasibility studies for regional waste management systems aligned with the EU standards. The Project will ensure the closure of existing unsanitary landfills to achieve desired emission targets.</p>
<p><b>Standard-setting: helping projects and clients achieve higher standards</b> - Client seeks/makes use of EBRD expertise on <b>best international procurement standards</b> - <b>Gender additionality:</b> Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans.</p>	<p>[REDACTED]. The Bank is providing technical assistance for tendering process which will be carried out in line with best international standards and contribute to enhanced technical and implementation capacities of the MoEP. In addition, the Bank will support equal opportunity practices at the four regional utility companies in Phase 1.</p>
<p><b>Additionality sources: Knowledge, innovation and capacity building</b> 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>.</p>	<p>Technical assistance will be provided to the MoEP, regional utility companies, and municipalities. This will entail training of the staff, implementation phase support, development of local skills for leachate and landfill gas collection and treatment, operation of landfill and plants, and promotion of in-household source separation and public awareness-raising, among others.</p>

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
<i>Project specific risks</i>		
Implementation risk	Medium/High	The MoEP's lack of experience with EBRD's PP&R is mitigated through the appointment of a procurement support. The implementation will be supervised by an independent engineer [REDACTED].

<b>External risks</b>		
Macro-economic risk	Medium/ High	Notwithstanding the recent shock caused by the COVID-19 crisis, long-term outlook for the country remains resilient. Serbia is rated at BB+ (Stable) by S&P, Ba2 (Stable) by Moody's and BB+ (Stable) by Fitch. EBRD forecasts GDP growth at 6.0 per cent in 2021 and 3.5 per cent in 2022 (EBRD REP June 2021).
Climate risk	Low/ Medium	One of the sites is in the Kolubara region, which is at risk of flooding. This has been assessed and will be addressed in the design and the client's emergency planning.

## 2. MEASURING / MONITORING SUCCESS

<b>Overall objectives of project</b>	<b>Monitoring benchmarks</b>	<b>Implementation timing</b>
On-time project implementation	Completion of the Phase-1 according to the timeline and within budget	[REDACTED]

### Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	New or updated GET technology or product leading to resource efficiency introduced	Completion of four regional waste management centres	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	New or updated GET technology or product leading to pollution prevention control introduced	Completion of sanitary landfills	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	CO <sub>2</sub> e emissions reduced (tonnes/year)	GHG emission reduction of 178,068 tonnes CO <sub>2</sub> e per year (Scope 1 and 2) [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Waste recovered, recycled or re-used (tonnes/year)	Waste recycled increase [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s) [REDACTED]	Serbia plans to adopt the National Waste Management Programme [REDACTED]. The Bank will support the Government of Serbia in development and update of the Regional Waste Management Plans (RWMPs) through loan-funded technical assistance. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Additional Indicators**

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

**3. KEY PARTIES****3.1 BORROWER**

The Borrower is the Republic of Serbia represented by the MoEP.

The Serbian economy is recovering strongly. The effects of the Covid-19 pandemic on the economy were moderate in 2020 given the structure of the economy, large government support packages and less restrictive lockdown measures. After contracting by 0.9 per cent in 2020, GDP grew by 1.8 per cent year-on-year (y/y) in the first quarter and by 13.7 per cent y/y in the second quarter of 2021. The fast growth in the second quarter largely reflects the low base of last year, strong external demand from Serbia's main trading partners and robust household consumption on the back of pent up demand. Rising prices of agricultural products and energy as well as supply chain bottlenecks contributed to rising inflation, though monetary policy remains accommodative. EBRD forecasts GDP growth at 6.0 per cent in 2021 and 3.5 per cent in 2022 (EBRD REP June 2021). Risks to the forecast are balanced.

Public debt increased on the back of economic support measures, but is considered manageable. Fiscal policy remained expansionary in 2021 to support the economic recovery. To help finance the fiscal gap, Serbia stepped up domestic and external borrowing in 2020-21. Public debt is expected to be just under 60 per cent of GDP at end-2021, falling to below 50 per cent of GDP by 2026 (IMF WEO October 2021) assuming timely return to fiscal discipline. Notwithstanding the recent shock caused by the Covid-19 crisis, the long-term outlook for Serbia remains resilient. Serbia is rated at BB+ (Stable) by S&P, Ba2 (Stable) by Moody's and BB+ (Stable) by Fitch.

A more detailed debt assessment of Serbia is presented in Annex 2.

### **3.2 IMPLEMENTING ENTITY**

The MoEP will be in charge of overall project implementation. The PIU team also includes experienced representatives of the beneficiaries and will be supported by independent PIU support consultants and supervision engineers. The PIU will be responsible for daily management, administration, procurement and monitoring of project implementation.

EBRD and AFD will jointly work on Project implementation, in line with the terms set in the Project Implementation Agreement [REDACTED]. The AFD has agreed to follow EBRD PP&R, as well as EBRD's Environmental and Social Policy (April 2019).

### **3.3 PROJECT ENTITIES**

Currently, the RWMSs in Phase 1 are managed by three established RUCs (Eko-Tamnavia d.o.o. in Kalenic, Banjica d.o.o. in Nova Varos, and PUC Duboko) and the City of Sombor, one of the five municipalities that form the Sombor SW region. A new RUC will be set up to operate the RWMS in Sombor [REDACTED]. Although existing RUCs were established several years ago, they are not operating effectively. The Bank will support through loan-funded technical assistance the improvement of the RUCs in terms of governance and operations. Please refer to Annex 1 for further details of the Project Entities.

## **4. MARKET CONTEXT**

Waste management in Serbia is currently based on system of waste collection, transportation and landfilling. The collection is organised primarily in urban areas, whereas rural areas are significantly less covered. Thus the waste collection service coverage ranges from only 25 per cent to 100 per cent in some municipalities. It has been estimated that the overall collection rate of organised municipal waste collection in Serbia amounts to approximately 80 per cent. Thus, about 20 per cent of the generated municipal solid waste in Serbia is disposed in non-compliant dumpsites/landfills, outside the control of the public utility companies.

Sanitary landfills currently in operation cover less than 30 per cent of the Serbian population. It is expected that following the implementation of the Belgrade Solid Waste PPP project, this coverage will increase by an additional 20 per cent. As per the draft NWMP, there are 123 controlled non-compliant municipal landfill sites in Serbia and about 3,450 dumpsites. In most cases, these dumpsites are located in villages and are primarily the result of the lack of funds for expansion of the waste collection system and poor organisation of waste management on local level.

In comparison with EU countries, organic waste represents a high proportion of Serbia's municipal solid waste, and the recycling rate is very low, in connection with the absence of collection / recycling channels formalized at the level of the vast majority of local authorities in the country. Although the primary waste selection in Serbia has been set forth under the law which envisages the separation of paper/cardboard, plastics, glass and metal in specially labelled containers, recycling is not functioning in practice.

According to the Association of Serbian Waste Utility Companies, the recycling rate of municipal SW is between 3 and 8 per cent, which is significantly lower than in EU countries.

The Project is in line with the draft NWMP in preparation by the MoEP (through a twinning project with Austria, Sweden and Lithuania, funded by EU). The NWMP aims at reducing the quantities of waste going to landfills, especially biodegradable waste. In parallel, the intention is to increase the number of EU-compliant sanitary landfills and to close down non-compliant dumpsites. In order to reach the goal of reducing biodegradable waste going to landfills and goals related to waste recycling, a combination of source separation (green waste, paper and cardboard, etc.), secondary sorting and treatment (including mechanical-biological treatment) and waste incineration (waste to energy) is envisaged. The new Waste Management Law is currently under public consultations and is expected to be adopted together with the new NWMP.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 ECONOMIC ANALYSIS**

Each of the four sub-projects is expected to achieve a significant reduction in emissions relative to current waste management emissions produced in each region. Emissions reduction is achieved via avoided emissions as a result of materials recovery (plastics, paper, metal etc.) and energy recovery by replacing fossil fuels with waste. Additionally, the Project will result in the reduction of health risks and disamenities as a result of the closure of uncontrolled dumpsites and avoiding uncontrolled waste leachate. [REDACTED].

### **5.2 SENSITIVITY ANALYSIS**

[REDACTED]

### **5.3 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT**

Categorised A (2019 ESP). This Project involves the financing of a number of separate RWMSs, one of which, Kalenic, is categorised A due to its capacity. The other three RWMS in the first tranche would be categorised B if financed as stand-alone projects. Sub-projects in the second tranche will be subject to separate categorisation, appraisal and disclosure. Due diligence for Tranche 1 has been carried out with the assistance of external environmental and social consultants and has been split into two streams. For Kalenic a gap analysis of the local Environmental Impact Assessment (“EIA”) has been carried out, while Sombor, Duboko and Nova Varos have been subject to an environmental and social appraisal.

The EIA for Kalenic was disclosed on 6 August 2021, together with a supplementary package which included a Non-Technical Summary (“NTS”), Stakeholder Engagement Plan (“SEP”), Land Acquisition and Resettlement Framework (“LARF”) and Environmental and Social Action Plan (“ESAP”). The EIA prepared for national permitting purposes was updated in 2020, complies with local and EU EIA requirements and has previously been subject to local disclosure and consultation. To date the Bank has not received any comments on these documents. An NTS, SEP, LARF and ESAP have also been prepared for each of the other sites and have been agreed with the client. Each of the ESAPs include actions to establish environmental, social and labour management systems for the new landfills and to develop and implement construction and operation management plans. For Kalenic the final design for some elements, including the leachate treatment facility, landfill gas collection, waste treatment facility and composting plant, has yet to be determined. The environmental and social impacts associated with these components are described in general terms in the EIA and NTS. Supplementary impact assessments will be carried out once the design details are specified, and management plans will be updated accordingly.

This Project will upgrade a significant part of Serbia’s waste management systems in line with EU standards and in support of the NWMP. The first four sites will cover 29 municipalities and service over 900,000 people. It will establish EU-compliant landfills and introduce waste sorting and recycling, biodegradable waste treatment and recovery and supporting infrastructure. The projects will lead to the closure of numerous unmanaged dumpsites across Serbia. The improvement in waste management across the four sub-projects are expected to result in GHG emission reductions of around 178,000 tonnes CO<sub>2</sub>e per year.

Land for the main sites is publicly owned and no resettlement of households is required, although some land acquisition will be required for waste transfer stations. Livelihood loss through future restriction of access to waste pickers has been determined to be a low risk yet a LARF has been developed as a precaution for each site. Other potential impacts could relate to pollution of soil or ground water, odours and visual impacts. These can be readily addressed through good project design and site management, as supported by the ESAP. EBRD will monitor implementation of environmental and social commitments through annual reporting by the client and the PIU and periodic independent audits.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence was undertaken on the MoF, the MoEP and other stakeholders. The review did not identify any material integrity concerns, and it was therefore concluded that this project does not pose an unacceptable reputational or integrity 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.



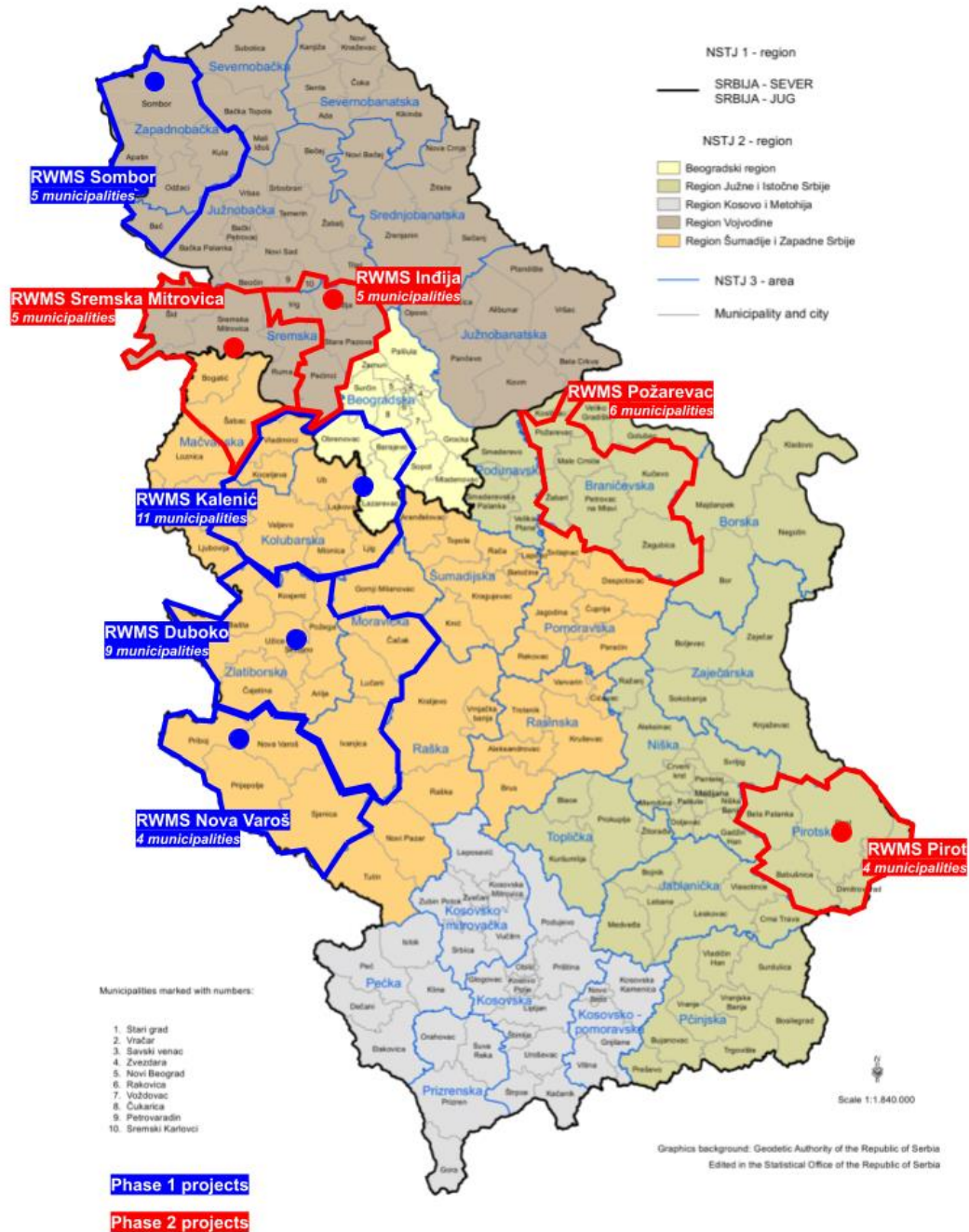
**ANNEXES TO OPERATION REPORT**

ANNEX 1	Project Description
ANNEX 2	Serbia Sovereign Debt Assessment
ANNEX 3	Economic Analysis
ANNEX 4	Green Assessments
ANNEX 5	Project Implementation
ANNEX 6	Shareholding Structure

## ANNEX 1 – PROJECT DESCRIPTION

The Project has been divided into two phases based on the advancement of the studies in relevant regions.

Municipalities and cities in the Republic of Serbia by areas and regions  
- As of January 1<sup>st</sup> 2018 -



**PHASE-1:****Sub-Project 1: Kalenic RWMS**

The Kalenic RWMS consists of 11 municipalities<sup>3</sup>, with a population of 341,201 in 2021. In 2019, the Kalenic region generated 120,591 tonnes of MSW. The Kalenic subproject involves development of a RWMC that will receive mixed municipal waste and will consist of a pre-treatment facility and a sanitary landfill.

In the region, the current solid waste management is limited to waste collection of mostly mixed municipal waste that goes to municipal unsanitary (i.e. mostly non-engineered) landfills. Two facilities dedicated to receiving dry recyclables are in operation in the municipalities of Valjevo and Obrenovac, but currently operate with poor efficiency or as dirty material recovery facility (“MRF”) using mixed waste as input. Collection is performed by municipal PUCs with a door-to door system. Clients of the PUCs are mostly households (95% of the service) and commercial activities (5%). Industrial waste producers bring waste directly to the municipal unsanitary landfill or use private operators.

After the completion of the Project, a RUC, Eko-Tamnava, will operate the RWMC. Eko-Tamnava was established as a limited liability company in 2013, with all 11 local governments as co-founders and shareholders. Once the RWMC will be operational, the municipal PUCs plan to collect two types of waste: dry recyclables and mixed waste. Dry recyclables will be processed within the municipalities, while all mixed waste will be treated at the RWMC. [REDACTED].

**Sub-Project 2: Sombor RWMS**

The Sombor RWMS project consists of 5 municipalities<sup>4</sup> which have a combined population of 180,461 (2021), producing 56,738 tonne/year of MSW (2019). This RWMS plans to construct a RWMC that will consist of a MBT, a sorting plant for source-separated packaging waste and sanitary landfill cells. The Sombor RWMS is currently managed by the city of Sombor, one of the five municipalities that form the region. A new RUC will be set up to operate the RWMC which will be located in the settlement of Rancevo (in the municipality of Sombor).

In this region, the SW management is limited to mostly waste collection of mixed municipal waste that goes to municipal unsanitary landfills. Sombor has voluntary drop-off points for the primary selection of recyclable waste. The recyclable waste is treated within a recycling facility in Sombor. The collection is performed by municipal PUCs either with a door-to-door system or collective drop-off points.

When the RWMC is operational, the PUCs will collect mixed municipal waste and have voluntary drop-off points (or door-to-door collection) for recyclables. Both types of waste will be brought to the RWMC where mixed municipal waste will be pre-treated with an MBT and primary selected waste will be secondary sorted within a packaging waste sorting facility. The MBT output will be mostly Solid Recovered Fuel and Compost-Like Output. [REDACTED].

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<sup>3</sup> Valjevo, Ub, Lajkovac, Ljig, Mionica, Osecina, Barajevo, Lazarevac, Obrenovac, Vladimirci, and Koceljjeva.

<sup>4</sup> Sombor, Apatin, Kula, Odzaci, and Bac

### **Sub-Project 3: Duboko RWMS**

The Duboko RWMS consists of 9 municipalities<sup>5</sup>, with a total population of 319,770 in 2021. This regional waste management area already has a RWMC in Duboko, with a sanitary landfill and a MRF. EBRD provided EUR 5 million loan in 2008 (Duboko Solid Waste) to the PUC Duboko to finance the construction of a regional sanitary landfill, which has been operating since 2011. The RWMC received 94,017 tons of waste in 2020. The PUC Duboko needs to improve and upgrade the RWMC with the construction of a leachate treatment plant, a landfill gas treatment plant and a composting plant. It is also planned to modernize the existing MRF.

Since the construction of the RWMC in 2011, the waste from the 9 municipalities within the RWMS has been sent to Duboko. 5 municipalities are doing a primary selection of recyclable waste that also goes through the MRF facility. Currently in the region, there is only one transfer station in Cacak, and 6 reloading stations across the region (Arilje, Bajina Basta, Cajetina, Ivanjica, Lucani, Pozega). The municipalities of Kosjeric and Uzice bring their waste directly to the RWMC. The PUC Duboko is in charge of the transport of waste from the Cacak transfer station and the 6 other reloading stations. This transport is performed with hook lift trucks. [REDACTED].

### **Sub-Project 4: Nova Varos RWMS**

The Nova Varos RWMS consists of 4 municipalities<sup>6</sup>, with a total population of 96,528 (2021) producing 67,841 tonne of MSW per year (2019). These municipalities formed RWMC Banjica in 2013. The project entails construction of an EU-compliant sanitary landfill and light infrastructures for waste separation and composting.

In the region, solid waste management is currently limited to waste collection of mostly mixed municipal waste that goes to municipal landfills. Collection is performed by municipal PUCs either with a door-to-door system or collective drop-off point. [REDACTED].

Following Project implementation, all mixed waste will be treated at the RWMC Banjica. [REDACTED].

### **PHASE-2:**

Phase-2 covers three RWMSs in Pirot, Sremska Mitrovica, and Požarevac or Indija, and a multi-regional primary sorting system project. The detailed project definition will be provided after the due diligence for Phase-2 and prior to Tranche 2 commitment.

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<sup>5</sup> Grad Uzice, Arilje, Bajina Basta, Kosjeric, Pozega, Cajetina, Cacak, Ivanjica, and Lucani

<sup>6</sup> Nova Varos, Priboj, Prijepolje, and Sjenica

## ANNEX 2 – SERBIA SOVEREIGN DEBT ASSESSMENT

**The economy is recovering strongly, in particular given the mild contraction in 2020.** The effects of the Covid-19 pandemic on the economy were moderate in 2020. The structure of the economy – a limited reliance on tourism and a relatively high share of basic goods such as food and some chemicals in manufacturing – combined with large government aid packages and less restrictive lockdown measures for most of the year, contributed to a GDP contraction of just 0.9 per cent. GDP grew by 1.8 per cent year-on-year (y/y) in the first quarter and by 13.7 per cent y/y in the second quarter reflecting the low base of last year, strong expansion of exports and industry due to rebound of the Euro Area, Serbia’s main trading partner, and robust household consumption on the back of pent up demand and growing remittances. Short-term indicators on domestic and external demand in the third quarter point to continued recovery despite the, likely temporary, slowdown in the industrial production during the summer period. On the back of the base effect of the last year, rising prices of agricultural products and energy and supply chain bottlenecks, inflation increased to 5.7 per cent y/y in September, outside the target band of 3 per cent +/- 1.5 per cent. Monetary policy remained accommodative with policy rate at all-time low of 1 per cent. FDI recovered in the first half of the 2020, nearly reaching 2019 level, with equity making up close to 50 per cent, which bodes well for future growth.

**GDP will exceed its 2019 level in 2021.** Continuing expansionary fiscal policy in 2021, planned significant increase in public investment and continued recovery in domestic and external demand is expected to boost the GDP growth to 6.0 per cent in 2021 and 3.5 per cent in 2022 (EBRD REP June 2021). Risks to the forecast are balanced and relate primarily to the pace of recovery of external demand and speed of public infrastructure projects and structural reforms, as well as the uncertain development of the pandemics, due to the slow pace of vaccination.

**Public debt increased.** Despite a significant fall since 2015, Serbia’s public debt remained above the legally binding limit (45 per cent of GDP) prior to the pandemic. As a response to the shock in 2020, the government implemented aid packages worth around EUR 5.8 billion, increasing budget deficit significantly (to 8.1 per cent of GDP). Fiscal policy remained expansionary in 2021 to support the economic recovery. To help finance the fiscal gap, Serbia stepped up domestic and external borrowing, raising around EUR 3 billion through two Eurobond issuances in 2020 and additional EUR 2.75 billion in 2021 year-to-date via three additional Eurobonds. The issuances in 2021 include first ever 7-year green bond at a record low coupon rate of 1.0 per cent and a 15-year Eurobond, the longest maturity Serbia has issued so far. Receipts from the green bond will be used to finance the infrastructure and green agenda projects. Altogether, the amount of Eurobonds issued in 2020-21 so far exceed the total amount issued in 2011-19. On the back of repeated access to external markets and increase in the SDR allocation by the IMF, the international reserves of the National Bank of Serbia increased by 16 per cent compared to end-2020 to the record level of EUR 15.6 billion in August. Public debt is expected to be just under 60 per cent of GDP at end-2021, falling to below 50 per cent of GDP by 2026 (IMF WEO October 2021) assuming timely return to fiscal discipline and absence of external shocks.

[REDACTED]. The main risks to the debt sustainability relate to absence of further structural fiscal adjustment and unfavourable internal and external developments due to different shocks, such as the one related to Covid-19. [REDACTED]. Continued

engagement with the IMF helps uphold the confidence. After completing a non-financial agreement with the IMF (a 30-month Policy Coordination Instrument) in January 2021, Serbian authorities signed another one in June 2021. The new 30-month PCI aims at supporting a faster economic recovery, macroeconomic and financial stability and structural reforms. First programme review is taking place in October 2020. Serbia is rated at BB+ (Stable) by S&P, Ba2 (Stable) by Moody's and BB+ (Stable) by Fitch.

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

**Key macroeconomic indicators for Serbia are presented below:**

Indicator	Unit	2016	2017	2018	2019	2020
GDP growth	%, y/y	3.3	2.1	4.5	4.3	-0.9
CPI inflation	%, y-o-y, average	1.2	3.0	2.0	1.9	1.6
Key policy rate	%, eop	4.00	3.50	3.00	2.25	1.00
Fiscal balance	% of GDP	-1.3	1.2	0.6	-0.2	-8.1
Public debt	% of GDP	68.7	58.6	54.4	52.9	58.2
Current account	% of GDP	-2.9	-5.2	-4.8	-6.9	-4.3
Net FDI (- inflow)	% of GDP	-5.2	-6.2	-7.4	-7.7	-6.2
External debt	% of GDP	72.0	65.1	62.2	61.4	66.3
Gross reserves	bn EUR	10.2	10.0	11.3	13.4	13.5
	% of GDP	27.8	25.4	26.3	29.1	29.0
Private sector credit	% of GDP	41.0	40.3	41.4	45.9	45.8
CAR	%	21.8	22.6	22.3	23.4	22.4
NPL	%	17.0	9.8	5.7	4.1	3.7
Nominal GDP	bn US\$	40.6	44.1	50.5	51.5	53.1
	bn EUR	36.7	39.2	42.9	45.9	46.5
Unemployment LFS	%, average	15.3	13.5	12.7	10.4	9.0
GDP per capita	US\$	5,756	6,284	7,223	7,398	7,651

## **ANNEX 3 – ECONOMIC ANALYSIS**

[REDACTED]

## ANNEX 4 – GREEN ASSESSMENTS

### **GET attribution**

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

The Project is expected to contribute to GHG emissions savings and result in significant health and environmental benefits. GHG reduction (Scope 1 and Scope 2) is expected to be around 178,000 tonnes of CO2 equivalent per year.

The percentage of EBRD proceeds allocated to the Project's Tranche 1 qualifying as GET is 100 per cent. The GET share of Tranche 2 will be confirmed following due diligence and prior to Tranche 2 commitment.



## ANNEX 5 – PROJECT IMPLEMENTATION

### **Procurement classification – *Public sovereign***

[REDACTED]. The Executing Agency for the Project will be a dedicated central PIU to be established within MoEP which will be in charge of procurement, contract administration, disbursements and reporting to the Project financiers. The MoEP PIU will be supported by PIUs established at the level of RWMCs who will be responsible for day to day administrations of the contracts for which they are direct beneficiaries. Neither the central PIU nor the RWMCs PIUs are yet appointed and operational. [REDACTED]. Both MoEP as well as RWMCs has limited procurement and technical experience in managing similar contracts. To mitigate such risk MoEP will engage a qualified independent consultant to support the PIU develop the technical specifications and requirements and assist the PIUs in all procurement matters concerning the implementation of the project. Additionally, the MoEP will engage a Supervision Consultant that that will supervise all the works contract to be implemented under the Project. [REDACTED].

### **Procurement arrangements:**

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

All contracts for works and goods will be procured in accordance with EBRD PPR Section 3 and relevant EBRD Standard Tender 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.

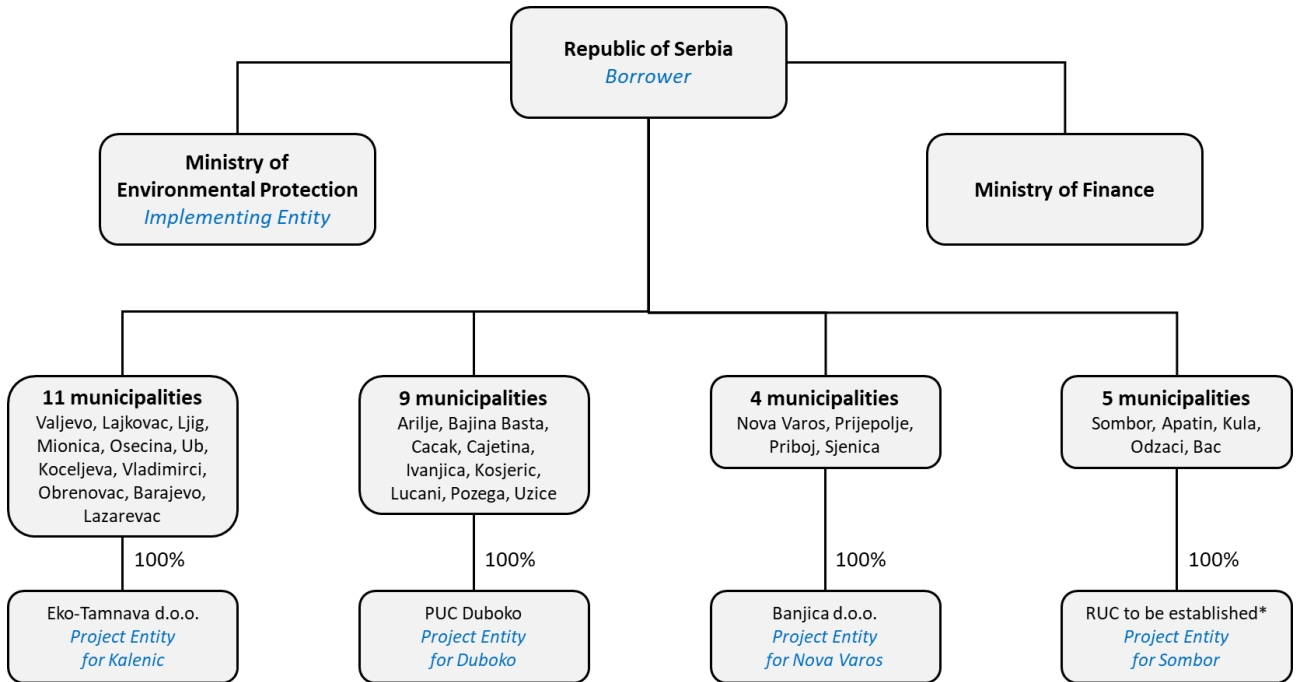
The procurement of goods and related services will be procured through ‘Open’ Single Stage tendering procedure and EBRD standard tender documents and form of contract for goods and related services.

All consultancy services to be financed under the contracts be will be procured through Competitive Selection in accordance with the procedure described in Section 5 of PPR and will be based EBRD Standard Request for Proposals and forms of contracts.

### **Additional information:**

The Project is co-financed alongside AFD, with EBRD as Lead Financial Institution and being responsible for procurement oversight. [REDACTED].

## ANNEX 6 – SHAREHOLDING STRUCTURE



\* The City of Sombor will be the Project Entity until RUC is established.