**LOAN NUMBER 94760-YF**

**Loan Agreement**

**(First Serbia Green Transition Programmatic Development Policy Loan)**

**between**

**REPUBLIC OF SERBIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION**

**AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF SERBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

# ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

* 1. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
  2. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

2.01. The Bank agrees to lend to the Borrower the amount of one hundred forty-nine million nine hundred thousand Euro (€149,900,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”).

* 1. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.04. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.05. The Payment Dates are April 15 and October 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.

2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

**ARTICLE III — PROGRAM**

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

1. the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;
2. prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon paragraph (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

# ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following: namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

5.01. The Additional Condition of Effectiveness consists of the following: namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date one hundred eighty (180) days after the Signature Date.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. The Borrower’s Representative, who, *inter alia*, may agree to a modification of the provisions of this Agreement on behalf of the Borrower through an exchange of letters (unless otherwise determined by the Borrower and the Bank), is its Minister of Finance.

6.02. For purposes of Section 10.01 of the General Conditions:

(a) the Borrower’s address is:

Ministry of Finance

20 Kneza Milosa St.

11000 Belgrade

Republic of Serbia; and

(b) the Borrower’s Electronic Address is:

Facsimile: E-mail:

(381-11) 3618-961 [kabinet@mfin.gov.rs](mailto:kabinet@mfin.gov.rs)

6.03. For purposes of Section 10.01 of the General Conditions:

(a) the Bank’s address is:

International Bank for Reconstruction and Development

1818 H Street, N.W.

Washington, D.C. 20433

United States of America; and

(b) the Bank’s Electronic Address is:

Telex: Facsimile: Email:

248423(MCI) or 1-202-477-6391 [npontara@worldbank.org](mailto:npontara@worldbank.org)

64145(MCI)

AGREED and signed in English as of the Signature Date.

**REPUBLIC OF SERBIA**

**By**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/s1/

**Authorized Representative**

**Name: \_\_\_\_SINIŠA MALI\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/n1/

**Title: DEPUTY PRIME MINISTER AND MINISTER**

**OF FINANCE**/t1/

**Date: \_\_\_\_\_\_\_30 - MAY 2023\_\_\_\_\_\_\_\_\_\_\_**/d1/

**INTERNATIONAL BANK FOR RECONSTRUCTION**

**AND DEVELOPMENT**

**By**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/s2/

**Authorized Representative**

**Name: \_\_\_\_Nicola Pontara\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/n2/

**Title: \_\_\_\_\_Country Manager\_\_\_\_\_\_\_\_\_\_\_**/t2/

**Date: \_\_\_\_\_\_23-May-2023\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/d2/

**SCHEDULE 1**

**Program Actions; Availability of Loan Proceeds**

**Section I. Actions under the Program**

The actions taken by the Borrower under the Program include the following:

*Pillar I*. *Better align fiscal management with the climate-change agenda*

1. The Borrower has introduced the legal obligation to publish in-year budget execution information (covering the first six and nine months of budget execution), with functional and administrative breakdowns as in the original budget, to increase transparency in budgetary expenditures, including on environment and climate related activities, as evidenced by amendments to the Budget System Law.
2. The Borrower, pursuant to the Methodology for Fiscal Risk Monitoring, developed fiscal risk models to quantify fiscal risks over the medium-term, as included in the Fiscal Strategy, and introduced the obligation to produce in-year and annual fiscal risk reports, as evidenced by Government Decision 05 No. 40-9575/2021, duly published in the Borrower’s Official Gazette No. 99, dated October 22, 2021.
3. The Borrower has introduced additional environmental and climate-related criteria to evaluate public investment projects, submitted by Budget Beneficiaries to the MoF for financing from the Government’s budget, and prioritize those public investment projects with positive impact on the environment and climate change, as evidenced by the amendments to the Decree on Management of Capital Projects, duly published in the Borrower’s Official Gazette No. 139, dated December 16, 2022.

*Pillar II.* *Accelerate the clean energy transition*

1. The Borrower, pursuant to the Law on the Use of Renewable Energy Sources, has:

a. enabled implementation of auctions for renewable energy capacity, as evidenced by (i) the Decree on market premium model agreement (Decree 05 No. 110-9353/2021-1), and (ii) the Decree on market premiums and feed-in tariff (Decree 05 No. 110-9352/2021-1), both duly published in the Borrower’s Official Gazette No. 112/2021, dated November 26, 2021; and

b. introduced a simplified registration procedure for prosumers, as evidenced by the Decree on the criteria, conditions, and manner of calculating mutual financial claims between self-consumers and suppliers (Decree 5 No. 110-7592/2021-2), duly published in the Borrower’s Official Gazette No. 83/2021, dated August 27, 2021.

1. The Borrower has revised the Rulebook on Internal Organization and Job Systematization (Rulebook No. 110-00-00085/2021-08, dated October 7, 2021) to enable the Energy Efficiency Administration to scale up programs for residential clean energy, as evidenced by the Government Decision 05 No. 110-10364/2021, dated November 10, 2021.
2. The Borrower, pursuant to the Energy Law and in order to promote transparent, and non-discriminatory access to the distribution grid for renewable energy prosumers and electricity retail service providers, has separated the Borrower-owned distribution system operator (“EPS Distribucija Ltd. Belgrade”) from the Borrower-owned power public enterprise (“PE Elektroprivreda Srbije”), by establishing and licensing a separate, and independent, Borrower-owned legal entity (“Elektrodistribucija Srbije Ltd. Belgrade”), as evidenced by the consolidated text of the Decision on the Incorporation of the “Elektrodistribucija Srbije Ltd. Belgrade”, No. 2460800-08.01-183456/1-22, dated April 28, 2022, notarized under certification No. UOP-T 12-2022, dated July 7, 2022.
3. The Borrower:

a. has expanded the benefits coverage for energy-vulnerable customers, as evidenced by the Decree on Energy Vulnerable Customers (Decree 05 No. 110-9890/2022-1), duly published in the Borrower’s Official Gazette No. 137/2022, dated December 9, 2022; and

b. through its Council of the Energy Agency, has approved an increase of the electricity tariff for guaranteed supply to achieve sustainable tariff levels over the medium term, as evidenced by (i) Council of the Energy Agency of the Republic of Serbia Decision No. 487/2022-D-02/1, dated July 28, 2022, duly published in the Borrower’s Official Gazette No. 83/2022, dated July 28, 2022; and (ii) Decision No. 791/2022-D-02/1, dated November 28, 2022, duly published in the Borrower’s Official Gazette No. 131/2022, dated November 29, 2022.

*Pillar III. Align with European Union standards on environment and climate action*

1. The Borrower has introduced a monitoring, reporting and verification system for industrial installations to align with the EU’s Emission Trading System, as evidenced by the adoption of:

a. Decree on types of activities and greenhouse gases which require an emissions permit (Decree 05 No. 110-817/2022), duly published in the Borrower’s Official Gazette No. 13/2022, dated February 4, 2022; and

b. Rulebook on verification and accreditation of verifiers of greenhouse gases emissions reports (Rulebook No. 110-00-00057/2021-04), duly published in the Borrower’s Official Gazette No. 107/2021, dated November 12, 2021.

1. The Borrower has aligned national policy and legislation with the EU Waste Framework Directive, as evidenced by the:

a. adoption of the National Waste Management Program and Action Plan through Government Decision 05 No. 353-588/2022-1, duly published in the Borrower’s Official Gazette No. 12/2022, dated February 1, 2022; and

b. submission to the Parliament of the amendment to the Law on Waste Management, through Government notice 05 No. 011-10810/2022-2, dated December 30, 2022.

1. The Borrower has aligned national policy and legislation with the EU National Emissions Ceiling Directive and the EU Air Quality Directive, as evidenced by the adoption of the Air Protection Program in the Republic of Serbia for the period from 2022 to 2030 with an Action Plan, including specific interventions to address emissions from medium combustion plants, duly published in the Borrower’s Official Gazette No. 140, dated December 22, 2022.

**Section II. Availability of Loan Proceeds**

**A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

**B. Allocation of Loan Amounts.** The Loan is allocated in: (1) a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds; and (2) the amounts requested by the Borrower to pay the Front-end Fee. The allocation of the amounts of the Loan to this end is set out in the table below:

|  |  |
| --- | --- |
| **Allocations** | **Amount of the Loan**  **(expressed in Euro)** |
| (1) Single Withdrawal Tranche | 149,525,250 |
| (2) Front-end Fee | 374,750 |
| TOTAL AMOUNT | 149,900,000 |

**C. Withdrawal Tranche Release Conditions**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (1) with the Program being carried out by the Borrower; and (2) with the adequacy of the Borrower’s macroeconomic policy framework.

**D. Deposit of Loan Amounts**

The Borrower, within thirty (30) days after the withdrawal of the Loan from the Loan Account, shall report to the Bank: (1) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (2) the details of the account to which the Serbian Dinars equivalent of the Loan proceeds will be credited; (3) the record that an equivalent amount has been accounted for in the Borrower’s budget management systems; and (4) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

**E. Closing Date.** The Closing Date is June 30, 2024.

**SCHEDULE 2**

**Commitment-Linked Amortization Repayment Schedule**

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”).

**Level Principal Repayments**

|  |  |
| --- | --- |
| **Principal Payment Date** | **Installment Share** |
| On each April 15 and October 15  Beginning April 15, 2027  through October 15, 2034 | 6.25% |

**APPENDIX**

**Definitions**

1. “Budget Beneficiaries” means the list of Borrower legal entities identified under Article 2, Item 5 of the Budget System Law, as may be revised from time to time.
2. “Budget System Law”, means the Borrower’s Law on the Budget System, duly published in the Borrower’s Official Gazette No. 54/09, dated July 17, 2009, as amended pursuant to the amendments published in the Borrower’s Official Gazette: (i) No. 73/10, dated October 12, 2010; (ii) No. 101/10, dated December 29, 2010; (iii) No. 101/11, dated December 30, 2011; (iv) No. 93/12, dated September 28, 2012; (v) No. 62/13, date July 16, 2013; (vi) No. 63/13, dated July 19, 2013 (corrigendum); (vii) No. 108/13, dated December 6, 2013; (viii) No. 142/14, dated December 25, 2014; (ix) No. 68/15, dated August 4, 2015 (other law); (x) No. 103/15, dated December 14, 2015; (xi) No. 99/16, dated December 12, 2016; (xii) No. 113/17, dated December 17, 2017; (xiii) No. 95/18, dated December 8, 2018; (xiv) No. 31/19, dated April 29, 2019; (xv) No. 72/19, dated October 7, 2019; (xvi) No. 149/20, dated December 11, 2020; (xvii) No. 118/21, dated December 9, 2021; and (xviii) No. 118/21, dated December 9, 2021 (other law); and (xix) No. 138/2022, dated December 12, 2022.
3. “Council of the Energy Agency” means the decision body of the Energy Agency of the Republic of Serbia, established under Article 39 of the Energy Law, or any legal successor thereto.
4. “Decree on Management of Capital Projects” means the Borrower’s Decree on Management of Capital Projects duly published in the Borrower’s Official Gazette No. 51/19, dated July 19, 2019, as amended pursuant to the amendments published in the Borrower’s Official Gazette No. 139, dated December 16, 2022.
5. “Energy Agency of the Republic of Serbia” means the Borrower’s regulatory body, established under Article 38 of the Energy Law, with competences covering electricity, natural gas, oil and oil product, and combined heat and power (CHP) heat energy sectors, or any legal successor thereto.
6. “Energy Efficiency Administration” means the Borrower’s Administration for Energy Efficiency Financing and Promotion within the MoME, or any legal successor thereto, created pursuant to the Law on Energy Efficiency and Rational Use of Energy.
7. “Energy Law” means the Borrower’s Law on Energy, duly published in the Borrower’s Official Gazette No. 145/2014, dated December 29, 2014, as amended pursuant to the amendments published in the Borrower’s Official Gazette: (a) 95/2018, dated December 8, 2018 (other law), and (b) 40/2021, dated April 22, 2021.
8. “EU” means the European Union.
9. “EU Air Quality Directive” means the directive of the European Parliament and of the European Council No. 2008/50/EC, dated 21 May 2008, which regulated ambient air quality and cleaner air for Europe by, *inter alia*, establishing legally binding limit values for concentrations of major air pollutants that impact public health.
10. “EU National Emissions Ceiling Directive” means the directive of the European Parliament and of the European Council No. 2016/2284/EU, dated December 31, 2016, which established the 2020 and 2030 emission reduction commitments for five main air pollutants, namely, sulphur dioxide, ammonia, volatile organic compounds, nitrogen oxides, and fine particulate matter.
11. “EU Waste Framework Directive” means the directive of the European Parliament and of the European Council No. 2008/98/EC, dated December 12, 2008, which (a) set the basic concepts and definitions related to waste management, including definitions of waste, recycling and recovery; and (b) established an order of preference for managing and disposing of waste through the five-step “waste hierarchy” (prevention, preparing for reuse, recycling, recovery, and disposal).
12. “Fiscal Strategy” means a Government document that, pursuant to the Budget System Law, states the fiscal policy’s goals and is submitted to the Parliament annually.
13. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, December 21, 2020, April 1, 2021, and January 1, 2022).
14. “Law on Energy Efficiency and Rational Use of Energy” means the Borrower’s Law on Energy Efficiency and Rational Use of Energy, duly published in the Borrower’s Official Gazette No. 40/2021, dated April 22, 2021.
15. “Law on the Use of Renewable Energy Sources” means the Borrower’s Law on the Use of Renewable Energy Sources duly published in the Borrower’s Official Gazette No. 40/2021, dated April 22, 2021.
16. “Law on Waste Management” means the Borrower’s Law on the Waste Management, duly published in the Borrower’s Official Gazette No. 36/2009, dated May 15, 2009, as amended pursuant to the amendments published in the Borrower’s Official Gazette: (a) No. 88/2010, dated November 23, 2010; (b) No. 14/2016, dated February 22, 2016; and (c) No. 95/2018, dated December 8, 2018.
17. “MoF” means the Borrower’s Ministry of Finance, or any legal successor thereto.
18. “MoME” means the Borrower’s Ministry of Mining and Energy, or any legal successor thereto.
19. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated January 26, 2023 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.

1. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.
2. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.