ПРЕДЛОГ ЗАКОНА

О ПОТВРЂИВАЊУ УГОВОРА О КРЕДИТУ БР. CRS 1020 01 Y ИЗМЕЂУ ФРАНЦУСКЕ АГЕНЦИЈЕ ЗА РАЗВОЈ И РЕПУБЛИКЕ СРБИЈЕ ЗА РЕАЛИЗАЦИЈУ ПРОГРАМА УРБАНЕ СРЕДИНЕ ОТПОРНЕ НА КЛИМАТСКЕ ПРОМЕНЕ

Члан 1.

Потврђује се Уговор о кредиту бр. CRS 1020 01 Y између Француске агенције за развој и Републике Србије за реализацију Програма урбане средине отпорне на климатске промене, који је потписан у Београду 10. маја 2021. године, у оригиналу на енглеском језику.

Члан 2.

Текст Уговора о кредиту бр. CRS 1020 01 Y између Француске агенције за развој и Републике Србије за реализацију Програма урбане средине отпорне на климатске промене, у оригиналу на енглеском језику и у преводу на српски језик гласи:

**AFD AGREEMENT N° CRS 1020 01 Y**

**CREDIT FACILITY AGREEMENT**

**dated as of May 10, 2021**

**between**

**AGENCE FRANÇAISE DE DEVELOPPEMENT**

The Lender

**and**

**THE REPUBLIC OF SERBIA**

The Borrower

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**CREDIT FACILITY AGREEMENT**

**BETWEEN:**

1. **REPUBLIC OF SERBIA** represented by the Government of the Republic of Serbia, through Minister of Finance Mr. Siniša Mali, who is duly authorized to sign this Agreement,

(“Republic of Serbia” or the “Borrower”);

**AND**

1. **AGENCE FRANCAISE DE DEVELOPPEMENT**, a French public entity governed by French law, with registered office at 5, Rue Roland Barthes, 75598 Paris Cedex 12, France, registered with the Trade and Companies Register of Paris under number 775 665 599, represented by Ms. Cécile Couprie, in her capacity as Regional Director for Eurasia, duly authorised to sign this Agreement,

(“**AFD**” or the “**Lender**”);

(hereinafter jointly referred to as the “**Parties**” and each a “**Party**”);

**WHEREAS**:

1. The Borrower intends to implement a program consisting of a Public Policy Loan “Cities and Climate Change” (the “**Program**”), which is based on the achievement of one prior action (entry into force of the Law on Climate Change) and the support to the implementation of activities – as described further in Schedule 2 (*Program Description*).
2. The Borrower has requested that the Lender makes a facility available for the purposes of supporting the Program.
3. The IBRD as Co-Financier intends to provide a parallel financing for an amount of up to eighty two million six hundred thousand Euros (EUR 82, 600,000).
4. Pursuant to a resolution n° C20210137 of the *Comité des Etats Etrangers of AFD* dated April 7, 2021, the Lender has agreed to make the Facility available to the Borrower pursuant to the terms and conditions of this Agreement.

**THEREFORE THE PARTIES HAVE AGREED** **AS FOLLOWS:**

1. definitions and interpretatioN
   1. Definitions

Capitalised words and expressions used in this Agreement (including those appearing in the recitals above and in the Schedules) shall have the meaning given to them in Schedule 1A (Definitions), except as otherwise provided in this Agreement.

* 1. Interpretation

Words and expressions used in this Agreement shall be construed pursuant to the provisions of Schedule 1B (*Construction*), unless the contrary intention appears.

1. FACILITY, PURPOSE AND conditions OF UTILIsATION
   1. Facility

Subject to the terms of this Agreement, the Lender makes available to the Borrower a Facility in a maximum aggregate amount of fifty million Euros (EUR 50,000,000).

* 1. Purpose

The purpose of the Facility is to finance the Borrower budget intended to support the Program as described in Schedule 2 (*Program Description*), in accordance with the Financing Plan described in Schedule 3A (*Financing Plan*) and the Monitoring Chart described in Schedule 3B (*Monitoring Chart*).

* 1. Absence of Liability

The Lender shall not be held responsible for the use of any amount borrowed which is not in accordance with the provisions of this Agreement.

* 1. Conditions precedent

1. No later than the Signing Date, the Borrower shall provide to the Lender all of the documents set out in Part I of Schedule 4 (*Conditions Precedent*).
2. The Drawdown Request may not be delivered to the Lender unless:

the Lender has received all of documents listed in Part II and III of Schedule 4 (*Conditions Precedent*) and has notified the Borrower that such documents are satisfactory in form and substance;

on the date of the Drawdown Request and on the proposed Drawdown Date for the proposed Drawdown, no Payment Systems Disruption Event has occurred and the conditions set out in this Agreement have been fulfilled, including:

no Event of Default is continuing or would result from the proposed Drawdown;

the Drawdown Request has been made in accordance with the terms of Clause 3.2 (*Drawdown request*);

each representation given by the Borrower in relation to Clause 10 (*Representations and warranties*) is true.

1. Drawdown of Funds
   1. Drawdown amounts

The Facility will be made available to the Borrower during the Availability Period, in a single Drawdown.

The amount of the proposed Drawdown shall be equal to the Available Credit.

* 1. Drawdown request

Provided that the conditions set out in Clause 2.4 (*Conditions precedent*) are satisfied, the Borrower may draw on the Facility by delivery to the Lender of a duly completed Drawdown Request. Each Drawdown Request shall be delivered by the Borrower to the AFD office director at the address specified in Clause 16.1 (*In writing and addresses*).

Each Drawdown Request is irrevocable and will be regarded as having been duly completed if:

* + - 1. the Drawdown Request is substantially in the form set out in Schedule 5A (*Form of Drawdown Request*);
      2. the Drawdown Request is received by the Lender at the latest fifteen (15) Business Days prior to the Deadline for Drawdown;
      3. the proposed Drawdown Date is a Business Day falling within the Availability Period;
      4. the amount of the Drawdown complies with Clause 3.1 (*Drawdown amounts*); and
      5. all of the documents set out in Part II and III of Schedule 4 (*Conditions Precedent*) for the purposes of the Drawdown are attached to the Drawdown Request, comply with the abovementioned Schedule and with the requirements of Clause 3.4 (*Payment mechanics*), and are in form and substance satisfactory to the Lender.
  1. Payment completion

Subject to Clause 14.7 (*Payment Systems Disruption* ), if each of the conditions set out in Clause 2.4 b) (*Conditions precedent*) of this Agreement has been met, the Lender shall make the requested Drawdown available to the Borrower not later than the Drawdown Date.

The Lender shall provide the Borrower with a letter of Drawdown confirmation substantially in the form set out in Schedule 5B (*Form of confirmation of drawdown and rate*).

* 1. Payment mechanics

The proceeds of the Drawdown shall be paid to the Borrower’s Account or any other account which details will be duly notified by the Borrower to the Lender.

1. Interest
   1. Interest Rate
      1. Selection of Interest Rate

The Borrower may select a fixed Interest Rate or a floating Interest Rate for the Facility, which shall apply to the amount set out in the Drawdown Request, by stating the selected Interest Rate, i.e., fixed or floating, in the Drawdown Request delivered to the Lender substantially in the form set out in Schedule 5A (*Form of Rate* *Conversion* Request), subject to the following conditions:

Floating Interest Rate

The Borrower may select a floating Interest Rate, which shall be the percentage rate per annum, being the aggregate of:

* six-month EURIBOR, or, as the case may be, the Replacement Benchmark plus any Adjustment Margin, as determined in accordance with the provisions of Clause 5 (*Change to the calculation of interest*) of the Agreement; and
* the Margin.

Notwithstanding the above, if the first Interest Period is less than one hundred and thirty-five (135) days, the applicable EURIBOR shall be:

* one-month EURIBOR, or, as the case may be, the Replacement Benchmark plus any Adjustment Margin, as determined in accordance with the provisions of Clause 5 (*Change to the calculation of interest*) of the Agreement, if the first Interest Period is less than sixty (60) days; or
* three-month EURIBOR, or, as the case may be, the Replacement Benchmark plus any Adjustment Margin, as determined in accordance with the provisions of Clause 5 (*Change to the calculation of interest*) of the Agreement if the first Interest Period is between sixty (60) days and one hundred and thirty-five (135) days.

Fixed Interest Rate

The Borrower may select a fixed Interest Rate. The fixed Interest Rate shall be the Fixed Reference Rate increased or decreased by any fluctuation of the Index Rate from the Signing Date until the relevant Rate Setting Date.

The Borrower may specify in the Drawdown Request a maximum amount for fixed Interest Rate. If the fixed Interest Rate as calculated on the Rate Setting Date exceeds the maximum amount for fixed Interest Rate specified in the relevant Drawdown Request, such Drawdown Request shall be cancelled and the Drawdown amount specified in the cancelled Drawdown Request shall be credited to the Available Credit.

* + 1. Minimum Interest Rate

The Interest Rate determined in accordance with Clause 4.1.1 (*Selection of Interest Rate)*, regardless of the elected option, shall not be less than zero point twenty-five percent (0.25%) per annum, notwithstanding any decline in the Interest Rate.

* + 1. Conversion from a floating Interest Rate to a fixed Interest Rate

The floating Interest Rate applicable to the Drawdown, as the case may be, shall be converted to a fixed Interest Rate in accordance with the conditions set out below:

Rate Conversion upon the Borrower’s request

The Borrower may request at any time that the Lender converts the floating Interest Rate applicable to the Drawdown to a fixed Interest Rate.

To this effect, the Borrower shall send to the Lender a Rate Conversion Request substantially in the form set out in Schedule 5C (*Form of Rate Conversion Request*). The Borrower may specify in the Rate Conversion Letter a maximum amount for fixed Interest Rate. If the fixed Interest Rate as calculated on the Rate Setting Date exceeds the maximum amount for fixed Interest Rate specified by the Borrower in the Rate Conversion Request, such Rate Conversion Request will be automatically cancelled.

The fixed Interest Rate will be effective two (2) Business Days after the Rate Setting Date.

Rate Conversion mechanics

The fixed Interest Rate applicable to the Drawdown shall be determined in accordance with Clause 4.1.1 (ii) (*Fixed Interest Rate*) above on the Rate Setting Date referred to in subparagraph (i) above.

The Lender shall send to the Borrower a letter of confirmation of Rate Conversion substantially in the form set out in Schedule 5D (*Form of Rate Conversion Confirmation*).

A Rate Conversion is final and at no costs.

* 1. Calculation and payment of interest

The Borrower shall pay accrued interest on the Drawdown on each Payment Date.

The amount of interest payable by the Borrower on a relevant Payment Date and for a relevant Interest Period shall be equal to the sum of any interest owed by the Borrower on the amount of the Outstanding Principal in respect of the Drawdown. Interest owed by the Borrower in respect of the Drawdown shall be calculated on the basis of:

the Outstanding Principal owed by the Borrower in respect of the Drawdown as at the immediately preceding Payment Date or, in the case of the first Interest Period, on the corresponding Drawdown Date;

the exact number of days which have accrued during the relevant Interest Period on the basis of a three hundred and sixty (360) day year; and

the applicable Interest Rate determined in accordance with the provisions of Clause 4.1 (*Interest Rate*).

* 1. Late payment and default interest

Late payment and default interest on all amounts due and unpaid (except for interest)

If the Borrower fails to pay any amount payable by it to the Lender under this Agreement (whether a payment of principal, a Prepayment Indemnity, any fees or incidental expenses of any kind except for any unpaid overdue interest) on its due date, interest shall accrue on the overdue amount, to the extent permitted by law from the due date up to the date of actual payment (both before and after an arbitral award, if any) at the Interest Rate applicable to the current Interest Period (default interest) increased by three point five percent (3.5%) (late-payment interest). No formal prior notice from the Lender shall be necessary.

Late payment and default interest on unpaid overdue interest

Interest which has not been paid on its due date shall bear interest, to the extent permitted by law, at the Interest Rate applicable to the ongoing Interest Period (default interest), increased by three point five percent (3.5%) (late-payment interest), to the extent that such Interest has been due and payable for at least one (1) year. No formal prior notice from the Lender shall be necessary.

The Borrower shall pay any outstanding interest under this Clause 4.3 (*Late payment and default interest*) immediately on demand by the Lender or on each Payment Date following the due date for the outstanding payment.

Receipt of any payment of late payment interest or default interest by the Lender shall neither imply the grant of any payment extension to the Borrower, nor operate as a waiver of any of the Lender’s rights hereunder.

* 1. Communication of Interest Rates

The Lender shall promptly notify the Borrower of the determination of each Interest Rate in accordance with this Agreement.

* 1. Effective Global Rate (*Taux Effectif Global*)

In order to comply with Articles L. 314-1 to L.314-5 and R.314-1 *et seq*. of the French Consumer Code and L. 313-4 of the French Monetary and Financial Code, the Lender informs the Borrower, and the Borrower accepts, that the effective global rate (*taux effectif global*) applicable to the Facility may be valued at an annual rate of zero point eighty-four percent (0.84%) on the basis of a three hundred and sixty-five (365) day year, and an Interest Period of six (6) months, subject to the following:

* + - 1. the above rate is given for information purposes only;
      2. the above rate is calculated on the basis that:

drawdown of the Facility is in full on the Signing Date;

no Drawdown made available to the Borrower will bear interest on the floating rate; and

the fixed rate for the duration of the facility should be equal to zero point seventy-nine percent (0.79%);

* + - 1. the above rate take into account the fees and costs payable by the Borrower under this Agreement, assuming that such fees and costs will remain fixed and will apply until the expiry of the term of this Agreement.

1. Change to the calculation of interest
   1. Market Disruption

(a) If a Market Disruption affects the interbank market in the Eurozone and it is impossible:

(i) for the fixed Interest Rate, to determine the fixed Interest Rate applicable to a Drawdown, or

(ii) for the variable Interest Rate, to determine the applicable EURIBOR for the relevant Interest Period,

the Lender shall inform the Borrower.

(b) Upon the occurrence of the event described in paragraph (a) above, the applicable Interest Rate, as the case may be, for the Drawdown or for the relevant Interest Period will be the sum of:

(i) the Margin; and

(ii) the percentage rate per annum corresponding to the cost to the Lender of funding the Drawdown from whatever source it may reasonably select. Such rate shall be notified to the Borrower as soon as possible and, in any case, prior to (1) the first Payment Date for interest owed under the Drawdown for the fixed Interest Rate or (2) the Payment Date for interest owed under such Interest Period for the variable Interest Rate.

* 1. Replacement of Screen Rate

5.2.1 Definitions

"**Relevant Nominating Body**" means any central bank, regulator, supervisor or working group or committee sponsored or chaired by, or constituted at the request of any of them.

"**Screen Rate Replacement Event**" means any of the following events or series of events:

(a) the definition, methodology, formula or means of determining the Screen Rate has materially changed;

(b) a law or regulation is enacted which prohibits the use of the Screen Rate, it being specified, for the avoidance of doubt, that the occurrence of this event shall not constitute a mandatory prepayment event;

(c) the administrator of the Screen Rate or its supervisor publicly announces:

(i) that it has ceased or will cease to provide the Screen Rate permanently or indefinitely, and, at that time, no successor administrator has been publicly nominated to continue to provide that Screen Rate;

(ii) that the Screen Rate has ceased or will cease to be published permanently or indefinitely; or

(iii) that the Screen Rate may no longer be used (whether now or in the future);

(d) a public announcement is made about the bankruptcy of the administrator of that Screen Rate or any other insolvency proceedings against it, and, at that time, no successor administrator has been publicly nominated to continue to provide that Screen Rate; or

(e) in the opinion of the Lender, the Screen Rate has ceased to be used in a series of comparable financing transactions.

"**Screen Rate**" means EURIBOR or, following the replacement of this rate by a Replacement Benchmark, the Replacement Benchmark.

"**Screen Rate Replacement Date**" means:

– with respect to the events referred to in items a), d) and e) of the above definition of Screen Rate Replacement Event, the date on which the Lender has knowledge of the occurrence of such event, and,

– with respect to the events referred to in items b) and c) of the above definition of Screen Rate Replacement Event, the date beyond which the use of the Screen Rate will be prohibited or the date on which the administrator of the Screen Rate permanently or indefinitely ceases to provide the Screen Rate or the date beyond which the Screen Rate may no longer be used.

5.2.2 Each Party acknowledges and agrees for the benefit of the other Party that if a Screen Rate Replacement Event occurs and in order to preserve the economic balance of the Agreement, the Lender may replace the Screen Rate with another rate (the "**Replacement Benchmark**") which may include an adjustment margin in order to avoid any transfer of economic value between the Parties (if any) (the "**Adjustment Margin**") and the Lender will determine the date from which the Replacement Benchmark and, if any, the Adjustment Margin shall replace the Screen Rate and any other amendments to the Agreement required as a result of the replacement of the Screen Rate by the Replacement Benchmark.

5.2.3 The determination of the Replacement Benchmark and the necessary amendments will be made in good faith and taking into account, (i) the recommendations of any Relevant Nominating Body, or (ii) the recommendations of the administrator of the Screen Rate, or (iii) the industry solution recommended by professional associations in the banking sector or, (iv) the market practice observed in a series of comparable financing transactions on the replacement date.

5.2.4 In case of replacement of the Screen Rate, the Lender will promptly notify the Borrower of the replacement terms and conditions to replace the Screen Rate with the Replacement Benchmark, which will be applicable to Interest Periods starting at least two Business Days after the Screen Rate Replacement Date.

5.2.5 The provisions of Clause 5.2 (*Replacement of Screen Rate*) shall prevail over the provisions of Clause 5.1 (*Market Disruption*).

1. FEES
   1. Commitment fees

One hundred and eighty (180) calendar days after the Signing Date onwards, the Borrower shall pay to the Lender a commitment fee of zero point twenty five percent (0.25%) per annum.

The commitment fee shall be computed at the rate specified above on the amount of the Available Credit pro-rated for the actual number of days elapsed increased by the amount of any Drawdown to be made available by the Lender in accordance with any pending Drawdown Request.

The first commitment fee shall be calculated for the period from (i) the date falling sixty (60) calendar days after the Signing Date (excluded) up to (ii) the immediately following Payment Date (included). Subsequent commitment fees shall be calculated for periods commencing on the day immediately following a Payment Date (included) and ending on the next Payment Date (included).

The accrued commitment fee shall be payable (i) on each Payment Date within the Availability Period; (ii) on the Payment Date following the last day of the Drawdown Period; and (iii) in the event the Available Credit is cancelled in full, on the Payment Date following the effective date of such cancellation.

* 1. Front-end Fee

No later than one hundred and eighty (180) calendar days after the Signing Date and prior to the Drawdown, the Borrower shall pay to the Lender an appraisal fee of zero point twenty five percent (0.25%) calculated on the maximum amount of the Facility.

1. REPAYMENT

Following expiry of the Grace Period, the Borrower shall repay the Lender the principal amount of the Facility in eighteen (18) equal semi-annual instalments, due and payable on each Payment Date.

The first instalment shall be due and payable on December 15, 2024 and the last instalment shall be due and payable on June 15, 2033.

At the end of the Drawdown Period, the Lender shall deliver to the Borrower an amortisation schedule in respect of the Facility taking into account, if applicable, any potential cancellation of the Facility pursuant to Clauses 8.3 (*Cancellation by the Borrower*) and/or 8.4 (*Cancellation by the Lender*).

1. Prepayment and Cancellation
   1. Voluntary prepayment

The Borrower shall not be entitled to prepay the whole or any part of the Facility prior to the expiration date of a six (6) year period starting on the Signing Date.

As from the date referred to in the previous paragraph, the Borrower may prepay the whole or any part of the Facility, subject to the following conditions:

* + - 1. the Borrower shall notify the Lender of its intention to prepay by not less than thirty (30) Business Days’ written and irrevocable notice prior to the contemplated prepayment date;
      2. the amount to be prepaid shall be equal to one or several instalment(s) in principal;
      3. the contemplated prepayment date shall be a Payment Date;
      4. all prepayments shall be made together with the payment of accrued interest, any fees, indemnities and related costs in connection with the prepaid amount as provided under this Agreement;
      5. there is no outstanding unpaid amount; and
      6. in case of a part prepayment, the Borrower shall have given evidence, satisfactory to the Lender, that it has sufficient committed funding available for the purpose of financing the Program as determined in the Financing Plan.

On the Payment Date on which the prepayment is made, the Borrower shall pay the full amount of the Prepayment Indemnities due and payable pursuant to Clause 9.3 (*Prepayment Indemnity*).

* 1. Mandatory prepayment

The Borrower shall immediately prepay the whole or part of the Facility upon receipt of a notice from the Lender informing the Borrower of any of the following events:

* + - 1. Illegality: it becomes unlawful for the Lender pursuant to its applicable law to perform any of its obligations as contemplated by this Agreement or to fund or maintain the Facility;
      2. Additional Costs: the amount of any Additional Costs referred to in Clause 9.5 (*Additional Costs*) is significant and the Borrower has refused to pay such Additional Costs;
      3. Default: the Lender declares an Event of Default in accordance with Clause 13 (*Events of Defaults*);
      4. Prepayment to a Co-Financier: the Borrower prepays whole or part of any amounts owed to a Co-Financier on a mandatory prepayment basis, in which case the Lender shall be entitled to request that the Borrower prepays, as the case may be, the Facility or an amount of the outstanding Facility in proportion with the amount prepaid to the Co-Financier.

In the case of each of the events specified in paragraphs (a), (b) and (c) above, the Lender reserves the right, after having notified the Borrower in writing, to exercise its rights as a creditor in the manner specified in paragraph (b) of Clause 13.2 (*Acceleration*).

* 1. Cancellation by the Borrower

Prior to the Deadline for Drawdown, the Borrower may cancel the whole or any part of the Available Credit by giving the Lender a three (3) Business Days’ prior notice,.

Upon receipt of such notice of cancellation, the Lender shall cancel the amount notified by the Borrower, provided that the expenses, as specified in the Financing Plan, are covered in a manner satisfactory to the Lender, except in the event that the Program is abandoned by the Borrower.

* 1. Cancellation by the Lender

The Available Credit shall be immediately cancelled upon delivery of a notice to the Borrower which shall be immediately effective, if:

* + - 1. the Available Credit is not equal to zero on the Deadline for Drawdown;
      2. an Event of Default has occurred and is continuing; or
      3. an event referred to in Clause 8.2 (*Mandatory prepayment*) has occurred;

except where, in the case of paragraphs (a) of this Clause 8.4 (*Cancellation by the Lender*), the Lender has proposed to postpone the Deadline for Drawdown on the basis of new financial conditions which will apply to the Drawdown under the Available Credit and the Borrower has agreed on the proposition.

* 1. Restrictions

1. Any notice of prepayment or cancellation given by a Party pursuant to this Clause 8 (*Prepayment and Cancellation*) shall be irrevocable, and, unless otherwise provided in this Agreement, any such notice shall specify the date or dates on which the relevant prepayment or cancellation is to be made and the amount of that prepayment or cancellation.
2. The Borrower shall not prepay or cancel all or any part of the Facility except at the times and in the manner expressly provided for in this Agreement.
3. Any prepayment under this Agreement shall be made together with payment of (i) accrued interest on the prepaid amount, (ii) outstanding fees, and (iii) the Prepayment Indemnity referred to in Clause 9.3 (*Prepayment Indemnity*) below.
4. Any prepayment amount will be applied against the remaining instalments in inverse order of maturity.
5. The Borrower may not re-borrow the whole or any part of the Facility which has been prepaid or cancelled.
6. Additional Payment Obligations
   1. Costs and expenses
      1. If an amendment to this Agreement is required, the Borrower shall reimburse to the Lender for all costs (including legal fees) reasonably incurred in responding to, evaluating, negotiating or complying with that requirement.
      2. The Borrower shall reimburse to the Lender for all costs and expenses (including legal fees) incurred by it in connection with the enforcement or preservation of any of its rights under this Agreement.
      3. The Borrower shall pay directly or, if applicable, reimburse the Lender in case of an advance made by the Lender, the amount of all costs and expenses in connection with the transfer of funds to, or for the account of, the Borrower from Paris to any other place agreed with the Lender, as well as any transfer fees and expenses in connection with the payment of all sums due under the Facility.
   2. Cancellation Indemnity

If the Facility is cancelled in full or in part in accordance with the terms of Clauses 8.3 (*Cancellation by the Borrower*) and/or 8.4 (*Cancellation by the Lender*) paragraphs (a) and (b), the Borrower shall pay a cancellation indemnity computed at two point five (2.5%) on the cancelled amount of the Facility.

Each cancellation indemnity shall be due and payable on the Payment Date immediately following a cancellation of all or part of the Facility.

* 1. Prepayment Indemnity

On account of any losses suffered by the Lender as a result of the prepayment of the whole or any part of the Facility in accordance with Clauses 8.1 (*Voluntary prepayment*) or 8.2 (*Mandatory prepayment*), the Borrower shall pay to the Lender an indemnity equal to the aggregate amount of:

* the Prepayment Compensatory Indemnity; and
* any costs arising out of the break of any interest hedging swap transactions put in place by the Lender in connection with the amount prepaid.
  1. Taxes and duties
     1. Registration costs

The Borrower shall pay directly, or, if applicable, reimburse the Lender in case of an advance made by the Lender, the costs of all stamp duty, registration and other similar taxes payable in respect of the Agreement and any potential amendment thereto.

* + 1. Withholding Tax

The Borrower undertakes that all payments made to the Lender under this Agreement shall be free of any Withholding Tax in accordance with the interstate agreement entered into between the Republic of Serbia and the French Republic on February 25, 2019.

If a Withholding Tax is required by law, the Borrower undertakes to gross-up the amount of any such payment to such amount which leaves the Lender with an amount equal to the payment which would have been due if no payment of Withholding Tax had been required.

The Borrower shall reimburse to the Lender all expenses and/or Taxes for the Borrower’s account which have been paid by the Lender (if applicable), with the exception of any Taxes due in France.

* 1. Additional Costs

The Borrower shall pay to the Lender, within ten (10) Business Days of the Lender’s request, all Additional Costs incurred by the Lender as a result of: (i) the coming into force of any new law or regulation, or any amendment to, or any change in the interpretation or application of any existing law or regulation; or (ii) compliance with any law or regulation made after the Signing Date.

In this Clause, “**Additional Costs**” means:

any cost arising after the Signing Date out of one of the event referred to in the first paragraph of this Clause and not taken into account by the Lender to compute the financial conditions of the Facility; or

any reduction of any amount due and payable under this Agreement;

which is incurred or suffered by the Lender as a result of (i) making the Facility available to the Borrower or (ii) entering into or performing its obligations under the Agreement.

* 1. Currency indemnity

If any sum due by the Borrower under this Agreement, or any order, judgment or award given or made in relation to such a sum, has to be converted from the currency in which that sum is payable into another currency, for the purpose of:

making or filing a claim or proof against the Borrower; or

obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

the Borrower shall indemnify the Lender against and, within ten (10) Business Days of the Lender’s request and as permitted by law, pay to the Lender, the amount of any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between: (A) the exchange rate used to convert the relevant sum from the first currency to the second currency; and (B) the exchange rate or rate(s) available to the Lender at the time of its receipt of that sum. This obligation to indemnify the Lender is independent of any other obligation of the Borrower under this Agreement.

The Borrower waives any right it may have in any jurisdiction to pay any amount due under this Agreement in a currency or currency unit other than that in which it is expressed to be payable.

* 1. Due dates

Any indemnity or reimbursement payable by the Borrower to the Lender under this Clause 9 (*Additional Payment Obligations*) is due and payable on the Payment Date immediately following the circumstances which have given rise to the relevant indemnity or reimbursement.

Notwithstanding the above, any indemnity to be paid in connection with a prepayment pursuant to Clause 9.3 (*Prepayment Indemnity*) is due and payable on the date of the relevant prepayment.

1. Representations and warranties

All the representations and warranties set out in this Clause 10 (*Representations and warranties*) are made by the Borrower for the benefit of the Lender on the Signing Date. All the representations and warranties in this Clause 10 (*Representations and warranties*) are also deemed to be made by the Borrower on the date on which all of the conditions precedent listed in Part II of Schedule 4 (*Conditions Precedent*) are satisfied, on the date of each Drawdown Request, on each Drawdown Date and on each Payment Date, except that the repeating representations contained in Clause 10.9 (*No Misleading Information*) are deemed to be made by the Borrower in relation to the information provided by the Borrower since the date on which the representation was last made.

* 1. Power and authority

The Borrower has the power to enter into, perform and deliver this Agreement and to perform all contemplated obligations. The Borrower has taken all necessary action to authorise its entry into, performance and delivery of this Agreement.

* 1. Validity and admissibility in evidence

All Authorisations required:

* + - 1. to enable the Borrower to lawfully enter into, and exercise its rights and comply with its obligations under this Agreement; and
      2. to make this Agreement admissible in evidence in the courts of the jurisdiction of the Borrower or in arbitration proceedings as defined under Clause 17 (*Governing Law, Enforcement and Choice of Domicile*),

have been obtained and are in full force and effect, and no circumstances exist which could result in the revocation, non-renewal or modification, in whole or in part, of any such Authorisations.

* 1. Binding obligations

The obligations expressed to be assumed by the Borrower under this Agreement comply with all laws and regulations applicable to the Borrower in its jurisdiction and are legal, valid, binding and enforceable obligations which are effective in accordance with their written terms.

* 1. No filing or stamp taxes

Under the laws of the jurisdiction of incorporation of the Borrower, it is not necessary that this Agreement be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar taxes or fees be paid on or in relation to this Agreement or the transactions contemplated therein.

* 1. Transfer of funds

All amounts due by the Borrower to the Lender under this Agreement whether as principal or interest, late payment interest, Prepayment Indemnity, incidental costs and expenses or any other sum are freely convertible and transferable.

This representation shall remain in full force and effect until full repayment of all sums due to the Lender. In the event that the repayment dates of the Facility are extended by the Lender, no further confirmation of this representation shall be necessary.

The Borrower shall obtain Euros necessary for compliance with this representation in due course.

Should any difficulty in respect of Lender’s right of conversion and free transfer of any sum under this Agreement occur for any reason, including but not limiting to: (i) the coming into force of any new law or regulation, or any amendment to, or any change in the interpretation or application of any existing law or regulation; or (ii) compliance with any law or regulation made after the Signing Date; the Borrower will secure, without delay, all required certificates/confirmations from competent authorities (including National Bank of Serbia) in order to enable that all due sums under this Agreement are freely convertible and transferable.

* 1. No conflict with other obligations

The entry into and performance by the Borrower of, and the transactions contemplated by, this Agreement do not conflict with any domestic or foreign law or regulation applicable to it, its constitutional documents (or any similar documents) or any agreement or instrument binding upon the Borrower or affecting any of its assets.

* 1. Governing Law and Enforcement

1. The choice of French law as the governing law of this Agreement will be recognised and enforced by the courts and arbitration tribunals in the jurisdiction of the Borrower.
2. Any judgment obtained in relation to this Agreement in a French court or any award by an arbitration tribunal will be recognised and enforced in the jurisdiction of incorporation of the Borrower.
   1. No Default

No Event of Default is continuing or is reasonably likely to occur.

No breach of the Borrower is continuing in relation to any other agreement binding upon it, or affecting any of its assets, which has, or is reasonably likely to have, a Material Adverse Effect.

* 1. No Misleading Information

All information and documents supplied by the Borrower to the Lender were true, accurate and up-to-date as at the date they were provided or, if appropriate, as at the date at which they are stated to be given and have not been varied, revoked, cancelled or renewed on revised terms, and are not misleading in any material respect as a result of an omission, the occurrence of new circumstances or the disclosure or non-disclosure of any information.

* 1. Pari Passu Ranking

The Borrower’s payment obligations under this Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors.

* 1. Origin of funds, Acts of Corruption, Fraud and Anti-Competitive Practices

The Borrower represents and warrants that:

all the funds allocated to support the Program are from the proceeds of the Facility and the Co-financing, pursuant to the Law Approving the Budget of the Republic of Serbia for the year 2021 (*Zakon o budžetu Republike Srbije za 2021. godinu, Official Gazette of the Republic of Serbia, no. 149/2020 and 40/2021*);

the Program has not given rise to any Act of Corruption, Fraud or Anti-Competitive Practice.

* 1. No Material Adverse Effect

The Borrower represents and warrants that no event or circumstance which is likely to have a Material Adverse Effect has occurred or is likely to occur.

* 1. No immunity

If and to the extent that the Borrower may now or in future in any jurisdiction claim immunity for itself or its assets and to the extent that a jurisdiction grants immunity to the Borrower, the Borrower will not be entitled to claim for itself or any of its assets immunity from suit, execution, attachment or other legal process in connection with this Agreement to the fullest extent permitted by the laws of such jurisdiction.

The Borrower does not waive any immunity in respect of any present or future (i) “premises of the mission” as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) “consular premises” as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) assets that cannot be in commerce, (iv) military property or military assets and buildings, weapons and equipment designated for defence, state and public security, (v) receivables the assignment of which is restricted by law, (vi) natural resources, common use items, grids in public ownership, river basin land and water facilities in public ownership, protected natural heritage in public ownership and cultural heritage in public ownership, (vii) real estate in public ownership which is, partly or entirely, used by the authorities of the Republic of Serbia, autonomous provinces or local self-government for the purpose of exercising their rights and duties; (viii) the state's, autonomous province’s or local government’s stocks and shares in companies and public enterprises, unless the relevant entity consented to the establishment of a pledge over such stocks or shares, (ix) movable or immovable assets of health institutions, unless a mortgage was established based on the government's decision, (x) monetary assets and financial instruments determined as financial collateral in accordance with the law regulating financial collateral including monetary assets and financial instruments which are pledged in accordance with such law or (xi) other assets exempt from enforcement by international law or international treaties.

1. Undertakings

The undertakings in this Clause 11 (*Undertakings*) take effect on the Signing Date and remain in full force and effect for as long as any amount is outstanding under this Agreement.

* 1. Compliance with Laws; Regulations and Obligations

The Borrower shall comply

* + - 1. in all respects with all laws and regulations to which it and/or the Program is subject, particularly in relation to all applicable procurement, environmental protection, safety and labour laws; and
      2. with all of its obligations under this Agreement.
  1. Authorisations

The Borrower shall promptly obtain, comply with and do all that is necessary to maintain in full force and effect any Authorisation required under any applicable law or regulation to enable it to perform its obligations under this Agreement and to ensure their legality, validity, enforceability and admissibility in evidence.

* 1. Implementation and Preservation of the Program

The Borrower shall:

implement the Program in accordance with the generally accepted safety principles and in accordance with technical standards in force; and

maintain the Program assets in accordance with all applicable laws and regulations and in good operating and maintenance conditions, and use such assets in compliance with their purpose and all applicable laws and regulations.

* 1. Environmental and Social Responsibility
     1. Implementation of environmental and social measures

In order to promote sustainable development, the Parties agree that it is necessary to promote compliance with internationally recognised environmental and labour standards, including fundamental conventions of the International Labour Organization (“**ILO**”) and the international environmental laws and regulations applicable in the Borrower’s jurisdiction.

* + 1. Environmental and social grievance management
       1. The Borrower (i) confirms that it has received a copy of the ES Grievance Management Procedures and has acknowledged its terms, in particular with respect to actions that may be taken by the Lender in the event that a third party lodges a grievance, and (ii) acknowledges that the ES Grievance Management Procedures have, as between the Borrower and the Lender, the same contractually binding effect as this Agreement.
       2. The Borrower expressly authorises the Lender to disclose to the Experts (as defined in the ES Grievance Management Procedures) and to parties involved in the compliance audit and/or dispute resolution procedure, the Program documents concerning environmental and social matters necessary for processing the environmental and social Grievance (as defined in the ES Grievance Management Procedures), including, without limitation, those listed in Schedule 7 (*Non-exhaustive list of environmental and social documents which the Borrower permits to be disclosed in connection with ES Grievance management procedures*).
  1. Additional Financing

The Borrower shall not amend or alter the Financing Plan without obtaining the Lender’s prior written consent and shall finance any additional costs not anticipated in the Financing Plan on terms which ensure that the Facility will be repaid.

* 1. Pari Passu Ranking

The Borrower undertakes (i) to ensure that its payment obligations under this Agreement rank at all times at least *pari passu* with its other present and future unsecured and unsubordinated payment obligations; (ii) not to grant prior ranking or guarantees to any other lenders except if the same ranking or guarantees are granted by the Borrower in favour of the Lender, if so requested by the Lender.

* 1. Inspections

The Borrower hereby authorizes the Lender and its representatives to carry out inspections on a yearly basis, the purpose of which will be to assess the implementation of the Program and the Monitoring Chart on technical, financial and institutional aspects.

The Borrower shall co-operate and provide all reasonable assistance and information to the Lender and its representatives when carrying out such inspections, the timing and format of which shall be determined by the Lender following consultation with the Borrower.

The Borrower shall retain and make for inspection by the Lender, all documents relating to the implementation of the Program for a period of five (5) years from the date of the Drawdown under the Facility.

* 1. Program Evaluation

The Borrower acknowledges that the Lender may carry out, or procure that a third party carries out on its behalf, an evaluation of the Program. Feedback from this evaluation will be used to produce a summary containing information on the Program, such as: total amount and duration of the funding, objectives of the Program, expected and achieved quantified outputs of the Program, assessment of the relevance, effectiveness, impact and viability/sustainability of the Program, main conclusions and recommendations.

The main objective of the evaluation will be the articulation of credible and independent judgement on the key issues of relevance, implementation (efficiency) and effects (effectiveness, impact and sustainability).

Evaluators will need to take into account in a balanced way the different legitimate points of view that may be expressed and conduct the evaluation impartially.

The Borrower will be involved as closely as possible in the evaluation, from the drafting of the Terms of Reference to the delivery of the final report.

The Borrower agrees to the publication of this summary, in particular on the Lender's website.

* 1. Program Implementation

The Borrower shall:

ensure that any person, group or entity participating in the implementation of the Program is not listed on any Financial Sanctions List (including in particular the fight against terrorist financing); and

not finance any supplies or sectors which are subject to an Embargo by the United Nations, the European Union or France.

* 1. Origin of funds, no Acts of Corruption, Fraud or Anti-Competitive Practices

The Borrower undertakes:

to ensure that the funds, other than those of State origin, used for the implementation of the Program will not be of an Illicit Origin;

to ensure that the Program shall not give rise to any Act of Corruption, Fraud or Anti-Competitive Practice;

as soon as it becomes aware of, or suspects, any Act of Corruption, Fraud or Anti-Competitive Practice, to inform the Lender without any delay;

in the event referred to in paragraph (iii) above, or at the Lender’s request if the Lender suspects that the acts or practices referred to in paragraph (iii) have occurred, take all necessary actions to remedy the situation in a manner satisfactory to the Lender and within the time period determined by the Lender; and

to notify the Lender without delay if it has knowledge of any information which leads it to suspect any Illicit Origin of any funds used for the implementation of the Program.

* 1. Monitoring Chart

The Borrower shall inform, consult and discuss with the Lender and the Co-Financier in respect of (i) any amendment to the Monitoring Chart as described in Schedule 3B and (ii) the implementation of the ahead mentioned Monitoring Chart, for all the result indicators pertaining to the implementation of the Law on Climate Change.

* 1. Inter-ministerial Steering Committee

The Borrower, through the Ministry of Environmental Protection, shall set up an inter-ministerial steering committee to monitor the achievement of the results of the Monitoring Chart.

1. Information Undertakings

The undertakings in this Clause 12 (*Information Undertakings*) take effect on the Signing Date and remain in full force and effect for as long as any amount is outstanding under this Agreement.

* 1. Financial Information

The Borrower shall supply to the Lender any information that the Lender may reasonably require in relation to the Borrower’s foreign and domestic debt as well as the status of any guaranteed loans.

* 1. Program Implementation

The Borrower shall supply to the Lender, promptly upon the Lender’s request, any information or supporting document regarding the Program and the Monitoring Chart implementation.

* 1. Monitoring Report

The Borrower shall supply to the Lender:

Until the Program Completion Date, within one (1) month following the end of each six-months period, a monitoring report with respect to the implementation of the Program during the past six-months;

Within one (1) month after the Program Completion Date, the report summarizing the technical and budget implementation of the Program.

* 1. Co-Financing

The Borrower shall promptly inform the Lender of any cancellation (in whole or in part) or any prepayment by a Co-Financier.

* 1. Additional Information

The Borrower shall supply to the Lender:

* + - 1. promptly upon becoming aware of them, details of any event or circumstance which is or may be an Event of Default or which has or may have a Material Adverse Effect, the nature of such an event and all the actions taken or to be taken to remedy it (if any);
      2. promptly, details of any decision or event which might affect the organisation, completion or operation of the Program.

1. Events of Defaults
   1. Events of Default

Each of the events or circumstances set out in this Clause 13.1 (*Events of Default*) is an Event of Default.

* + - 1. **Payment Default**

The Borrower does not pay on the due date any amount payable by it under this Agreement in the manner required under this Agreement. However, without prejudice to Clause 4.3 (*Late payment and default* interest), no Event of Default will occur under this paragraph (a) if such payment is made in full by the Borrower within five (5) Business Days of the due date.

* + - 1. **Undertakings and Obligations**

The Borrower does not comply with any term of the Agreement, including, without limitation, any of the undertakings it has given pursuant to Clause 11 (*Undertakings*) and Clause 12 (*Information Undertakings*).

Save for the undertakings given pursuant to Clause 11.4 (*Environmental and Social Liability*), Clause 11.9

*Program Implementation* ) and 11.10 (*Origin of funds, no Acts of Corruption, Fraud or Anti-Competitive Practices*) in respect of which no grace period is permitted, no Event of Default will occur under this paragraph (b) if the non-compliance is capable of remedy and is remedied within five (5) Business Days of the earlier of (A) the date of the Lender’ notice of failure to the Borrower; and (B) the Borrower becoming aware of the breach, or within the time limit determined by the Lender in the case referred to in subparagraph (iv) of Clause 11.10 (*Origin of funds, no Acts of Corruption, Fraud or Anti-Competitive Practices*)*.*

* + - 1. **Misrepresentation**

A representation or warranty made by the Borrower in the Agreement, including under Clause 10 (*Representations* *and warranties*), or in any document delivered by or on behalf of the Borrower under or in relation to the Agreement, is incorrect or misleading when made or deemed to be made.

* + - 1. **Cross Default**

Subject to paragraph (ii), any Financial Indebtedness of the Borrower is not paid on its due date or, if applicable, within any grace period granted pursuant to the relevant documentation.

A creditor has cancelled or suspended its commitment towards the Borrower pursuant to any Financial Indebtedness, or has declared the Financial Indebtedness due and payable prior to its specified maturity, or requested prepayment in full of the Financial Indebtedness, in each case, as a result of an event of default or any provision having a similar effect (howsoever described) pursuant to the relevant documentation.

No Event of Default will occur under this clause 13.1 (d) if the relevant amount of Financial Indebtedness or the commitment for Financial Indebtedness falling within paragraphs (i) and (ii) above is less than thirty millions Euros (EUR 30,000,000) (or its equivalent in any other currency(ies)).

* + - 1. **Unlawfulness**

It is or becomes unlawful for the Borrower to perform any of its obligations under this Agreement.

* + - 1. **Material adverse change**

Any event (including a change in the political situation of the country of the Borrower) or any measure which is likely, according to the Lender’s opinion, to have a Material Adverse Effect occurs or is likely to occur.

* + - 1. **Withdrawal or suspension of the Program**

Any of the following occurs:

the Borrower withdraws from the Program;

the implementation of the Program is suspended by the Borrower for a period exceeding six (6) months; or

* + - 1. **Authorisations**

Any Authorisation required for the Borrower in order to perform or comply with its obligations under this Agreement or required in the ordinary course of the Program is not obtained within the required timeframe or is cancelled or becomes invalid or otherwise ceases to be in full force and effect.

* + - 1. **Judgments, rulings or decisions having a Material Adverse Effect**

Any judgment or arbitral award or any judicial or administrative decision affecting the Borrower has or is reasonably likely, according to the opinion of the Lender, to have a Material Adverse Effect, occurs or is likely to occur.

* + - 1. **Suspension of free convertibility and free transfer**

Free convertibility and free transfer of any of the amounts due by the Borrower under this Agreement, or any other facility provided by the Lender to the Borrower or any other borrower of the jurisdiction of the Borrower, is challenged.

Any foreign exchange law is amended, enacted or introduced or is reasonably to be amended, enacted or introduced in the Republic of Serbia that (in the opinion of the Lender): (i) has or is reasonably likely to have the effect of prohibiting, or restricting or delaying in any material respect any payment that the Borrower is required to make pursuant to the terms of this Agreement; or (ii) is materially prejudicial to the interests of the Lenders under or in connection with this Agreement.

* 1. Acceleration

On and at any time after the occurrence of an Event of Default, the Lender may, without providing any formal demand or commencing any judicial or extra-judicial proceedings, by written notice to the Borrower:

* + - 1. cancel the Available Credit; and/or
      2. declare that all or part of the Facility, together with any accrued or outstanding interest and all other amounts outstanding under this Agreement, are immediately due and payable.

Without prejudice to the above, in the event that an Event of Default occurs as set out in Clause 13.1 (*Events of Default*), the Lender reserves the right to, upon written notice to the Borrower, (i) suspend or postpone any Drawdown under the Facility; and/or (ii) suspend the finalisation of any agreements relating to other possible financial offers which have been notified by the Lender to the Borrower; and/or (iii) suspend or postpone any drawdown under any loan agreement entered into between the Borrower and the Lender.

If any drawdown is postponed or suspended by a Co-Financier under an agreement between such Co-Financier and the Borrower, the Lender reserves the right to postpone or suspend any Drawdown under the Facility.

* 1. Notification of an Event of Default

In accordance with Clause 12.5 (*Additional* Information), the Borrower shall promptly notify the Lender upon becoming aware of any event which is or is likely to be an Event of Default and inform the Lender of all the measures contemplated by the Borrower to remedy it.

1. ADMINISTRATION OF THE FACILITY
   1. Payments

All payments received by the Lender under this Agreement shall be applied towards the payment of expenses, fees, interest, principal amounts or any other sum due under this Agreement in the following order:

* + - * 1. incidental costs and expenses;
        2. fees;
        3. late-payment interest and default interest;
        4. accrued interest;
        5. principal repayments.

Any payments received from the Borrower shall be applied first in or towards payment of any sums due and payable under the Facility or under other loans extended by the Lender to the Borrower, should it be in the Lender’s interest to apply these sums to such other loans, in the order set out above.

* 1. Set-off

Without prior approval of the Borrower, the Lender may, at any time, set-off due and payable obligations owed by the Borrower against any amounts held by the Lender on behalf of the Borrower or any due and payable obligations owed by the Lender to the Borrower. If the obligations are in different currencies, the Lender may convert either obligation at the prevailing currency exchange rate for the purpose of the set-off.

All payments made by the Borrower under the Agreement shall be calculated and made without set-off. The Borrower is prohibited from making any set-off.

* 1. Business Days

If a payment is due on a day which is not a Business Day, the due date for that payment shall be the next Business Day if the next Business Day is in the same calendar month, or the preceding Business Day if the next Business Day is not in the same calendar month.

During any extension of the Payment Date for a principal or unpaid amount under this Agreement, interest shall be payable on that amount during the extension period at the rate applicable on the original Payment Date.

* 1. Currency of payment

The currency of each amount payable under this Agreement is Euros, except as provided in Clause 14.6 (*Place of payment*).

* 1. Day count convention

Any interest, fee or expense accruing under this Agreement will be calculated on the basis of the actual number of days elapsed and a year of three hundred and sixty (360) days in accordance with European interbank market practice.

* 1. Place of payment

1. Any funds to be transferred by the Lender to the Borrower under the Facility will be paid to the bank account specifically designated for such purpose by the Borrower, provided that the Lender has given its prior consent on the selected bank.
2. Any payment to be made by the Borrower to the Lender shall be paid on the due date by no later than 11:00 am (Paris time) to the following bank account:

RIB Code: 30001 00064 00000040235 03

IBAN Code: FR76 3000 1000 6400 0000 4023 503

Banque de France SWIFT code (BIC): BDFEFRPPCCT

opened by the Lender at the Banque de France (head office/main branch) in Paris or any other account notified by the Lender to the Borrower.

1. The Borrower shall request from the bank responsible for transferring any amounts to the Lender that it provides the following information in any wire transfer messages in a comprehensive manner and in the order set out below (the caption numbers are referring to SWIFT MT 202 and 103 protocol)
   * Principal: name, address, bank account number (field 50)
   * Principal’s bank: name and address (field 52)
   * Reference: name of the Borrower, name of the Program, reference number of the Agreement (field 70)
2. All payments made by the Borrower shall comply with this Clause 14.6 (*Place of payment*) in order for the relevant payment obligation to be deemed discharged in full.
   1. Payment Systems Disruption

If the Lender determines (in its discretion) that a Payment Systems Disruption Event has occurred or the Borrower notifies the Lender that a Payment Systems Disruption Event has occurred, the Lender:

* + - 1. may, and shall if requested by the Borrower, enter into discussions with the Borrower with a view to agreeing any changes to the operation and administration of the Facility as the Lender may deem necessary in the circumstances;
      2. shall not be obliged to enter into discussions with the Borrower in relation to any of the changes mentioned in paragraph (a) above if, in its opinion, it is not practicable to do so in the circumstances and, in any event, it has no obligation to agree to such changes; and
      3. shall not be liable for any cost, loss or liability arising as a result of its taking, or failing to take, any actions pursuant to this Clause 14.7 (*Payment Systems Disruption* ).

1. MISCELLANEOUS
   1. Language

The language of this Agreement is English. If this Agreement is translated into another language, the English version shall prevail in the event of any conflicting interpretation or in the event of a dispute between the Parties.

All notices given or documents provided under, or in connection with, this Agreement shall be in English.

The Lender may request that a notice or document provided under, or in connection with, this Agreement which is not in English is accompanied by a certified English translation, in which case, the English translation shall prevail unless the document is a statutory document of an company, legal text or other official document.

* 1. Certifications and determinations

In any litigation or arbitration arising out of or in connection with this Agreement, entries made in the accounts maintained by the Lender are *prima facie* evidence of the matters to which they relate.

Any certification or determination by the Lender of a rate or amount under this Agreement will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

* 1. Partial invalidity

If, at any time, a term of this Agreement is or becomes illegal, invalid or unenforceable, neither the validity, legality or enforceability of the remaining provisions of this Agreement will in any way be affected or impaired.

* 1. No Waiver

Failure to exercise, or a delay in exercising, on the part of the Lender of any right under the Agreement shall not operate as a waiver of that right.

Partial exercise of any right shall not prevent any further exercise of such right or the exercise of any other right or remedy under the applicable law.

The rights and remedies of the Lender under this Agreement are cumulative and not exclusive of any rights and remedies under the applicable law.

* 1. Assignment

The Borrower may not assign or transfer, in any manner whatsoever, all or any of its rights and obligations under this Agreement without the prior written consent of the Lender.

The Lender may assign or transfer any of its rights or obligations under this Agreement to any other third party and may enter into any sub-participation agreement relating thereto.

* 1. Legal effect

The Schedules annexed hereto and the recitals hereof form part of this Agreement and have the same legal effect.

* 1. Entire agreement

As of the Signing Date, this Agreement represents the entire agreement between the Parties in relation to the matters set out herein, and supersedes and replaces all previous documents, agreements or understandings which may have been exchanged or communicated as part of the negotiations in connection with this Agreement.

* 1. Amendments

No amendment may be made to this Agreement unless expressly agreed in writing between the Parties.

* 1. Confidentiality – Disclosure of information

The Borrower shall not disclose the content of this Agreement to any third party without the prior consent of the Lender except to any person to whom the Borrower has a disclosure obligation under any applicable law, regulation or judicial ruling.

Notwithstanding any existing confidentiality agreement, the Lender may disclose any information or documents in relation to the Program to: (i) its auditors, experts, rating agencies, legal advisers or supervisory bodies; (ii) any person or entity to whom the Lender may assign or transfer all or part of its rights or obligations under the Agreement; and (iii) any person or entity for the purpose of taking any protective measures or preserving the rights of the Lender under the Agreement.

Furthermore, the Borrower hereby expressly authorizes the Lender:

to exchange with the French Republic for publication on the French government website pursuant to any request from International Aid Transparency Initiative; and

to publish on the Lender’s Website;

information relating to the Program and its support from the Lender as listed in Schedule 6 (*Information that may be published on the French Government Website and the Lender’s Website*)*.*

* 1. Limitation

The statute of limitations of any claims under this Agreement shall be ten (10) years, except for any claim of interest due under this Agreement.

* 1. Hardship

Each Party hereby acknowledges that the provisions of article 1195 of the French Code civil shall not apply to it with respect to its obligations under the Agreement and it shall be not entitled to make any claim under article 1195 of the French Code civil.

1. Notices
   1. In writing and addresses

Any notice, request or other communication to be given or made under or in connection with this Agreement shall be given or made in writing and, unless otherwise stated, may be given or made by fax or by letter sent by the post office to the address and number of the relevant Party set out below:

For the Borrower:

**MINISTRY OF FINANCE**

Address: 20 Kneza Milosa St. 11000 Belgrade

Telephone: (381-11) 364 26 00

Facsimile: (381-11) 3618-961

E-mail: kabinet@mfin.gov.rs

Attention: Mr. Siniša Mali, Minister of Finance

For the Lender:

**AFD – WESTERN BALKANS REGIONAL Office**

Address: Zmaj Jovina 11, 11000 Belgrade, Republic of Serbia

Telephone: +(381) 11.78.58.830

Attention: Head of Western Balkans Regional Office

With a copy to:

AFD – PARIS HEAD OFFICE

Address: 5, rue Roland Barthes – 75598 Paris Cedex 12, France

Telephone: + 33 1 53 44 31 31

Attention: Head of Europe, Middle East and Asia Department

or such other address, fax number, department or officer as one Party notifies to the other Party.

* 1. Delivery

Any notice, request or communication made or any document sent by a Party to the other Party in connection with this Agreement will only be effective:

* + - 1. if by fax, when received in a legible form; and
      2. if by letter sent though the post office, when delivered to the correct address,

and, where a particular person or a department is specified as part of the address details provided under Clause 16.1 (*In writing and addresses*), if such notice, request or communication has been addressed to that person or department.

* 1. Electronic communications

Any communication made by one person to another under or in connection with this Agreement may be made by electronic mail or other electronic means if the Parties:

(i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;

(ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and

(iii) notify each other of any change to their address or any other such information supplied by them.

Any electronic communication made between the Parties will be effective only when actually received in a readable form.

1. Governing Law, Enforcement and Choice of Domicile
   1. Governing Law

This Agreement is governed by French law.

* 1. Arbitration

Any dispute arising out of or in connection with this Agreement shall be referred to and finally settled by arbitration under the Rules of Conciliation and Arbitration of the International Chamber of Commerce applicable on the date of commencement of arbitration proceedings, by one or more arbitrators to be appointed in accordance with such Rules.

The seat of arbitration shall be Paris and the language of arbitration shall be English.

This arbitration clause shall remain in full force and effect if this Agreement is declared void or is terminated or cancelled and following expiry of this Agreement. The Parties’ contractual obligations under this Agreement are not suspended if a Party initiates legal proceedings against the other Party.

The Parties expressly agree that, by signing this Agreement, the Borrower irrevocably waives all rights of immunity in respect of jurisdiction or execution on which it could otherwise rely.

For the avoidance of doubt, this waiver includes a waiver of immunity from:

1. Any suit or legal, judicial or arbitral process arising out of, in relation to or in connection with this Agreement;
2. Giving of any relief by way of injunction or order for specific performance or for the recovery of assets or revenues;
3. Any effort to confirm, recognize, enforce or execute any decision, settlement, award judgment, execution order or, in an action in rem, any effort for the arrest, for the arrest, detention or sale of any of its assets and revenues that result from any arbitration, or any legal, judicial or administrative proceedings.

The Borrower does not waive any immunity in respect of any present or future (i) “premises of the mission” as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) “consular premises” as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) assets that cannot be in commerce, (iv) military property or military assets and buildings, weapons and equipment designated for defence, state and public security, (v) receivables the assignment of which is restricted by law, (vi) natural resources, common use items, grids in public ownership, river basin land and water facilities in public ownership, protected natural heritage in public ownership and cultural heritage in public ownership, (vii) real estate in public ownership which is, partly or entirely, used by the authorities of the Republic of Serbia, autonomous provinces or local self-government for the purpose of exercising their rights and duties; (viii) the state's, autonomous province’s or local government’s stocks and shares in companies and public enterprises, unless the relevant entity consented to the establishment of a pledge over such stocks or shares, (ix) movable or immovable assets of health institutions, unless a mortgage was established based on the government's decision, (x) monetary assets and financial instruments determined as financial collateral in accordance with the law regulating financial collateral including monetary assets and financial instruments which are pledged in accordance with such law or (xi) other assets exempt from enforcement by international law or international treaties.

* 1. Service of process

Without prejudice to any applicable law, for the purposes of serving judicial and extrajudicial documents in connection with any action or proceedings referred to above, the Borrower irrevocably chooses its registered office as at the date of this Agreement at the address set out in Clause 16 (*Notices*) for service of process, and the Lender chooses the address “AFD PARIS HEAD OFFICE” set out in Clause 16 (*Notices*) for service of process.

1. DURATION

This Agreement comes into force on the Effective Date and remains in full force and effect for as long as any amount is outstanding under this Agreement.

Notwithstanding the above, the obligations under Clause 15.9 (*Confidentiality – Disclosure of information*)shall survive and remain in full force and effect for a period of five years after the last Payment Date; the provisions of Clause 11.4.2 (*Environmental and social grievance management*) shall continue to have effect whilst any grievance lodged under the ES Grievance Management Procedures is still being processed or monitored**.**

Executed in three (3) originals, one (1) for the Lender and two (2) for the Borrower, in Belgrade (Republic of Serbia), on May 10, 2021.

|  |
| --- |
| **BORROWER** |
| **REPUBLIC OF SERBIA**    Represented by:  **Name: His Excellency Mr. Siniša Mali**  **Capacity: Minister of Finance** |
|  |
| **LENDER** |
| **AGENCE FRANÇAISE DE DÉVELOPPEMENT**    Represented by:  **Name: Ms. Cécile Couprie**  **Capacity: Regional Director for Eurasia** |
| **Cosigner, His Excellency Mr. Jean-Louis Falconi, Ambassador of France** |

SCHEDULE 1A – Definitions

|  |  |
| --- | --- |
| **Act of Corruption** | means any of the following:   * + - 1. the act of promising, offering or giving, directly or indirectly, to a Public Official or to any person who directs or works, in any capacity, for a private sector entity, an undue advantage of any nature, for the relevant person himself or herself or for another person or entity, in order that this person acts or refrains from acting in breach of his or her legal, contractual or professional obligations and, having for effect to influence his or her own actions or those of another person or entity; or       2. the act of a Public Official or any person who directs or works, in any capacity, for a private sector entity, soliciting or accepting, directly or indirectly, an undue advantage of any nature, for the relevant person himself or herself or for another person or entity, in order that this person acts or refrains from acting in breach of his or her legal, contractual or professional obligations and, having for effect to influence his or her own actions or those of another person or entity. |
| **Agreement** | means this credit facility agreement, including its recitals, Schedules and, if applicable, any amendments made in writing thereto. |
| **Anti-Competitive Practices** | means:   * + - 1. any concerted or implicit action having as its object and/or as its effects to impede, restrict or distort fair competition in a market, including without limitation when it tends to: (i) limit market access or the free exercise of competition by other companies; (ii) prevent price setting by the free play of markets by artificially favouring the increase or decrease of such prices; (iii) limit or control any production, markets, investment or technical progress; or (iv) share out markets or sources of supply;       2. any abuse by a company or group of companies of a dominant position within a domestic market or in a substantial part thereof; or       3. any bid or predatory pricing having as its object and/or its effect to eliminate from a market, or to prevent a company or one of its products from accessing the market. |
| **Authorisation(s)** | means any authorisation, consent, approval, resolution, permit, licence, exemption, filing, notarisation or registration, or any exemptions in respect thereof, obtained from or provided by an Authority, whether granted by means of an act, or deemed granted if no answer is received within a defined time limit, as well as any approval and consent given by the Borrower’s creditors. |
| **Authority(ies)** | means any government or statutory entity, department or commission exercising a public prerogative, or any administration, court, agency or State or any governmental, administrative, tax or judicial entity. |
| **Availability Period** | means the period from and including the Signing Date up to the Deadline for Drawdown. |
| **Available Credit** | means, at any given time, the maximum principal amount specified in Clause 2.1 (*Facility*) less:   1. the aggregate amount of any Drawdowns drawn by the Borrower; 2. the amount of any Drawdown to be made pursuant to any pending Drawdown Request; and 3. any portion of the Facility which has been cancelled pursuant to Clauses 8.3 (*Cancellation by the Borrower*) and/or 8.4 (*Cancellation by the Lender*). |
| **Borrower’s Account** | means the account opened in the name of the Borrower with the NBS. |
| **Business Day** | means a day (other than Saturday or Sunday) on which banks are open for general business in Paris, and which is a TARGET Day in the event that a Drawdown has to be made on such day. |
| **Certified** | means for any copy, photocopy or other duplicate of an original document, the certification by any duly authorised person, as to the conformity of the copy, photocopy or duplicate with the original document. |
| **Co-Financier(s)** | means the following co-financier(s) of the Program:  The International Bank for Reconstruction and Development (IBRD) for a maximum amount up to eighty two million six hundred thousand euros (EUR 82,600,000). |
| **Co-Financing** | means the parallel financing by the Co-Financier (IBRD) of an amount up to eighty two million six hundred thousand euros (EUR 82,600,000) |
| **Deadline for Drawdown** | means January 31, 2022, date after which no further Drawdown may occur. |
| **Drawdown** | means a drawdown of all or part of the Facility made available by the Lender to the Borrower pursuant to the terms and conditions set out in Clause 3 (*Drawdown of Funds*) or the principal amount outstanding of such Drawdown which remains due and payable at a given time. |
| **Drawdown Date** | means the date on which a Drawdown is made available by the Lender. |
| **Drawdown Period** | means the period starting on the Drawdown Date up to and including the first of the following date:  the date on which the Available Credit is equal to zero ;  the Deadline for Drawdown. |
| **Drawdown Request** | means a request substantially in the form set out in Schedule 5A (*Form of Drawdown Request*). |
| **Effective Date** | means the date on which the conditions set out in Part II of Schedule 4 (*Conditions Precedent*) have been fulfilled and shall occur at the latest 180 calendar days after the Signing Date. |
| **Embargo** | means any sanction of a commercial nature aiming at prohibiting any import and/or export (supply, sale or transfer) of one or several goods, products or services going to and/or coming from a country for a given period as published and amended from time to time by the United Nations, the European Union or France. |
| **ES Grievance Management Procedures** | means the contractual terms contained in the Environmental and Social Grievance Management Procedures, which is available on the Website, as amended from time to time. |
| **EURIBOR** | means the inter-bank rate applicable to Euro for any deposits denominated in Euro for a period comparable to the relevant period, as determined by the European Money Markets Institute (EMMI), or any successor administrator, at 11:00 am Brussels time, two (2) Business Days before the first day of the Interest Period. |
| **Euro(s) or EUR** | means the single currency of the member states of the European Economic and Monetary Union, including France, and having legal tender in such Member States. |
| **Event of Default** | means any event or circumstance set out in Clause 13.1 (*Events of Default*). |
| **Facility** | means the credit facility made available by the Lender to the Borrower in accordance with this Agreement up to the maximum principal amount set out in Clause 2.1 (*Facility*). |
| **Financial Indebtedness** | means any financial indebtedness for and in respect of:  any monies borrowed on a short, medium or long-term basis;  any amounts raised pursuant to the issue of bonds, notes, debentures, loan stock or any similar instruments;  any funds raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;  any potential payment obligation that results from a guarantee, bond, or any other instrument. |
| **Financial Sanctions List** | means the list(s) of persons, groups or entities which are subject to financial sanctions by the United Nations, the European Union and/or France.  For information purposes only and for the convenience of the Borrower, who may rely on, the following references or website addresses:  **For the lists maintained by the United Nations**, the following website may be consulted:  https://www.un.org/securitycouncil/fr/content/un-sc-consolidated-list  **For the lists maintained by the European Union**, the following website may be consulted:  https://eeas.europa.eu/headquarters/headquarters-homepage/8442/consolidated-list-sanctions\_fr  **For the lists maintained by France**, the following website may be consulted:  https://www.tresor.economie.gouv.fr/services-aux-entreprises/sanctions-economiques/dispositif-national-de-gel-des-avoirs |
| **Financing Plan** | means the financing plan of the Program attached as Schedule 3 (*Financing Plan*). |
| **Fixed Reference Rate** | means zero point seventy-nine percent (0.79%) per annum. |
| **Fraud** | means any unfair practice (acts or omissions) deliberately intended to mislead others, to intentionally conceal elements there from, or to betray or vitiate his/her consent, to circumvent any legal or regulatory requirements and/or to violate internal rules and procedures of the Borrower or a third party in order to obtain an illegitimate benefit. |
| **Fraud against the Financial Interests of the European Community** | means any intentional act or omission intended to damage the European Union budget and involving (i) the use or presentation of false, inaccurate or incomplete statements or documents, which has as effect the misappropriation or wrongful retention of funds or any illegal reduction in resources of the general budget of the European Union; (ii) the non-disclosure of information with the same effect; and (iii) misappropriation of such funds for purposes other than those for which such funds were originally granted. |
| **Grace Period** | means the period from the Signing Date up to and including the date falling thirty six (36) months after such date, during which no principal repayment under the Facility is due and payable. |
| **Illicit Origin** | means funds obtained through:   * + - 1. the commission of any predicate offence as designated in the FATF 40 recommendations Glossary under “*Designated categories of offences*” (http://www.fatf-gafi.org/media/fatf/documents/recommendations/Recommandations\_GAFI.pdf );       2. any Act of Corruption; or       3. any Fraud against the Financial Interests of the European Community, if or when applicable. |
| **Index Rate** | means the TEC 10 daily index, the ten-year constant maturity rate displayed on a daily basis on the relevant quotation page of the Reference Financial Institution or any other index which may replace the TEC 10 daily index. On the Signing Date, the Index Rate on April 26, 2021 is minus zero point zero one percent (-0.01%) per annum. |
| **Interest Period(s)** | means each period from a Payment Date (exclusive) up to the next Payment Date (inclusive). For the Drawdown under the Facility, the first interest period shall start on the Drawdown Date (exclusive) and end on the next successive Payment Date (inclusive). |
| **Interest Rate** | means the interest rate expressed as a percentage and determined in accordance with Clause 4.1 (*Interest Rate*). |
| **Law on Climate Change** | means the Law on Climate Change (*Zakon o klimatskim promenama*) of the Borrower that mandates the preparation and adoption of the Low-Carbon Development Strategy and its Action Plan and the Climate Change Adaptation Program, to establish systems to reduce GHG emissions and support climate adaptation in a cost-effective and economically viable manner, duly published in the Borrower’s Official Gazette No. 26/2021, dated March 23, 2021 and entered into force on March 31, 2021. |
| **Margin** | means eighty (80) basis points per annum. |
| **Market Disruption Event** | means the occurrence of one of the following events:  EURIBOR is not determined by the European Money Markets Institute (EMMI), or any successor administrator, at 11:00am Brussels time, two (2) Business Days before the first day of the relevant Interest Period or on the Rate Setting Date; or  before close of business of the European interbank market, two (2) Business Days prior to the first day of the relevant Interest Period or on the Rate Setting Date, the Borrower receives notification from the Lender that (i) the cost to the Lender of obtaining matching resources in the relevant interbank market would be in excess of EURIBOR for the relevant Interest Period; or (ii) it cannot or will not be able to obtain matching resources on the relevant interbank market in the ordinary course of business to fund the relevant Drawdown for the relevant time period. |
| **Material Adverse Effect** | means a material and adverse effect on:   * + - 1. the Program, insofar as it would jeopardise the implementation and operation of the Program in accordance with this Agreement;       2. the business, assets, financial condition of the Borrower or its ability to perform its obligations under this Agreement;       3. the validity or enforceability of this Agreement; or       4. any right or remedy of the Lender under this Agreement. |
| **Monitoring Chart** | means the chart attached as Schedule 3 B listing the indicators agreed upon between the Parties to monitor the implementation of the Program. |
| **National Bank of Serbia or NBS** | Means the central bank of the Republic of Serbia. |
| **Outstanding Principal** | means, in respect of any Drawdown, the outstanding principal amount due in respect of such Drawdown, corresponding to the amount of the Drawdown paid by the Lender to the Borrower less the aggregate of instalments of principal repaid by the Borrower to the Lender in respect of such Drawdown. |
| **Payment Dates** | means June 15 and December 15 of each year. |
| **Payment Systems Disruption Event** | means either or both of:   * + - 1. a material disruption to the payment or communication systems or to the financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by this Agreement to be carried out), provided that the disruption is not caused by, and is beyond the control of, any of the Parties; or       2. the occurrence of any other event which results in a disruption (of a technical or system-related nature) to the treasury or payment operations of a Party preventing that, or any other Party:  1. from performing its payment obligations under this Agreement; or   (ii) from communicating with the other Parties in accordance with the terms of this Agreement;  and which (in either case) is not caused by, and is beyond the control of, either Party. |
| **Prepayment Compensatory Indemnity** | means the indemnity calculated by applying the following percentage to the amount of the Facility which is repaid in advance:   * if the repayment occurs prior to the 3rd anniversary (exclusive) of the Signing Date: two percent (2%); * if the repayment occurs between the 3rd anniversary (inclusive) and the 7th anniversary (exclusive) of the Signing Date: one point five percent (1.5%); * if the repayment occurs between the 7th anniversary (inclusive) and the 10th anniversary (exclusive) of the Signing Date: one percent (1%); * if the repayment occurs after the 10th anniversary (inclusive) of the Signing Date: zero point five percent (0.5%). |
| **Program** | means the Program as described in Schedule 2 (*Program Description*). |
| **Program Completion Date** | means the date for the technical completion of the Program which is expected to be two years after the entry into force of the Law on Climate Change. |
| **Public Official** | means (i) any holder of legislative, executive, administrative or judicial office whether appointed or elected, serving on permanent basis or otherwise, paid or unpaid, regardless of rank, or (ii) any other person defined as a public official under the domestic law of the Borrower’s jurisdiction of incorporation, and (iii) any other person exercising a public function, including for a public agency or organisation, or providing a public service. |
| **Rate Conversion** | means the conversion of the floating rate applicable to all or part of the Facility into a fixed rate pursuant to Clause 4.1 (*Interest Rate*). |
| **Rate Conversion Request** | means a request from the Borrower substantially in the form attached as Schedule 5C (*Form of Rate Conversion Request*). |
| **Rate Setting Date** | means in relation to any Interest Period for which an Interest Rate is to be determined:   * + - * 1. the first Wednesday (or, if that date is not a Business Day, the immediately following Business Day) following the date of receipt by the Lender of the Drawdown Request, provided that such date is at least two (2) full Business Days prior to said Wednesday;   (ii) the second Wednesday (or, if that date is not a Business Day, the immediately following Business Day) following the date of receipt by the Lender of the Drawdown Request, if such date does not at least two (2) full Business Days prior to the first Wednesday specified in paragraph (i) above. |
| **Reference Financial Institution** | means a financial institution chosen as a suitable reference financial institution by the Lender and which regularly publishes quotations of financial instruments on one of the international financial information networks according to the practices recognised by the banking industry. |
| **Schedule(s)** | means any schedule or schedules to this Agreement. |
| **Signing Date** | means the date of execution of this Agreement by all the Parties. |
| **TARGET Day** | means a day on which the Trans European Automated Real Time Gross Settlement Express Transfer 2 (TARGET2) system, or any successor thereto, is open for payment settlement in Euros. |
| **Tax(es)** | means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with a failure to pay or any delay in the payment of any such amounts). |
| **Website** | means the website of AFD (http://www.afd.fr/) or any other such replacement website. |
| **Withholding Tax** | means any deduction or retention in respect of a Tax on any payment made under or in connection with this Agreement. |

SCHEDULE 1B - Construction

* 1. “**assets**” includes present and future properties, revenues and rights of every description;
  2. any reference to the “**Borrower**”, a “**Party**” or a “**Lender**” includes its successors in title, permitted assigns and permitted transferees;
  3. any reference to the Agreement or other document is a reference to this Agreement or to such other document as amended, restated or supplemented and includes, if applicable, any document which replaces it through novation, in accordance with the Agreement;
  4. a “**guarantee**” includes any *cautionnement, aval* and any *garantie* which is independent from the debt to which it relates;
  5. “**indebtedness”** means any obligation of any person whatsoever (whether incurred as principal or as surety) for the payment or repayment of money, whether present, future, actual or contingent;
  6. a “**person**” includes any person, company, corporation, partnership, trust, government, state or state agency or any association, or group of two or more of the foregoing (whether or not having separate legal personality);
  7. a “**regulation**” includes any legislation, regulation, rule, decree, official directive, instruction, request, advice, recommendation, decision or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, supervisory authority, regulatory authority, independent administrative authority, agency, department or any division of any other authority or organisation (including any regulation issued by an industrial or commercial public entity) having an effect on this Agreement or on the rights and obligations of a Party;
  8. a provision of law is a reference to that provision as amended;
  9. unless otherwise provided, a time of day is a reference to Paris time;
  10. The Section, Clause and Schedule headings are for ease of reference only and do not affect the interpretation of this Agreement;
  11. unless otherwise provided, words and expressions used in any other document relating to this Agreement or in any notice given in connection with this Agreement have the same meaning in that document or notice as in this Agreement;
  12. an Event of Default is “continuing” if it has not been remedied or if the Lender has not waived any of its rights relating thereto;
  13. a reference to a Clause or Schedule shall be a reference to a Clause or Schedule of this Agreement; and
  14. words importing the plural shall include the singular and vice-versa.

SCHEDULE 2 - Program Description

**CITIES AND CLIMATE CHANGE PROGRAM**

Public Policy Loan (PPL)

Program Document – March 2021

|  |  |
| --- | --- |
| Borrower | The Republic of Serbia |
| Line Ministry | Ministry of Environmental Protection |
| Associated entities (Steering Committee) | All relevant institutions of the Borrower |
| Financing Data | Amount of the loan: €50 million.  Amount of the technical assistance grant: €500,000. |
| Operation Type | Public Policy Loan (PPL), i.e. AFD equivalent to the World Bank Development Policy Loan (DPL) instrument |
| Pillar of the Operation and Program Development Objective(s) | This is a parallel financing to the Public Sector Efficiency and Green Recovery Development Policy Loan, to be mobilized by the World Bank (DPL P164575). It supports the Government of Serbia’s green recovery agenda (Pillar II) in addition to the primary actions developed with the World Bank. Additional actions are compliant with the accession process of Serbia to EU (Chapter 27) and incorporate the preparation of a policy framework to stimulate the contribution of the Local Government Units to the Environment and Climate Change national agenda. |
| Prior Action (One trigger for single disbursement) | The Borrower has enacted the Law on Climate Change (published in the Borrower’s Official Gazette No. 26/2021 on March 23, 2021 and entered into force on March 31, 2021) which mandates the preparation and adoption of the Low-Carbon Development Strategy and its Action Plan and the Climate Change Adaptation Program, to establish systems to reduce GHG emissions and support climate adaptation in a cost-effective and economically viable manner |
| Proposed Result indicators | **Result Indicator #1**: The National Climate Change Council (NCCC) is re-established and operational.  **Result Indicator #2** (shared with the WB DPL’s matrix): Relevant by-laws accompanying Law on climate change are drafted and adopted.  **Result Indicator #3**: Public policy documents are approved and/or harmonized with the Law on Climate Change.  **Result Indicator #4**: A feasibility study is carried out to identify financing scheme options for local self-government units climate investments |

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Acronyms

AFD French Development Agency

CC Climate Change

CIBT Capacity Building Initiative for Transparency

DPL Development Policy Loan

EU European Union

GCF Green Climate Fund

GEF Global Environment Facility

GoS Government of Serbia

LGU Local Government Unit

MCTI Ministry of Construction, Transport and Infrastructure

MEP Ministry of Environmental Protection

MME Ministry of Mining and Energy

MoF Ministry of Finance

NAP National Adaptation Plan

NCCC National Council on Climate Change

NDC National Determined Contribution

PIMO Public Investment Management Office

PPL Public Policy Loan

PUCs Public Utility Company

SKGO National Association of Local Authorities in Serbia

STCM **Standing Conference of Towns and Municipalities**

UNDP United Nation Development Program

WB World Bank

SUMMARY

*Overview of Climate Change challenges in Serbia*

**The energy sector remains the biggest source of GHG emissions in Serbia**. Combustion of fossil fuels, in particular, are responsible for nearly 80% of GHG emissions. **Serbia is also highly vulnerable to climate change.** The vulnerability is accelerated by economic and social challenges that Serbian society is facing – the aging population, old and unfunctional infrastructure, lack of financial resources and organization ability to cope with climate change.

**Key sectors concerned by climate change mitigation and adaptation within the urban context** **in Serbia** are district heating systems, mostly dependent on fossil fuel, that generate the most negative impact on GHG, and urban transportation. Air quality, flood protection, water (shortage and quality), and wastewater management are urban issues that are the most exposed to climate change. All the above-mentioned sectors rely heavily on cities and municipalities and their Public Utility Companies (PUCs) initiatives, while the cost of investment is generally over the financial capacity of the Local Government Units (LGUs) to assume alone those investments.

**The building of a legal framework for Climate Change action is underway**. The Law on Climate Change entered into force on March 31, 2021. It provides the establishment of a system for the GHG emission reduction and efficient adaptation to climate change, fulfilling the obligations to the international community and is in line with Serbia's roadmap accession to the EU. In addition, the Law on Climate Change aims to ensure a legal basis for the adoption of a Low-Carbon Development Strategy and a Program of adaptation to identify the effects of climate change on sectors and systems, and to determine the adaptation measures to the changed climate conditions, thus setting a system for adoption of policies and measures for GHG emission reduction and adaptation to climate change.

However, **a comprehensive national framework for climate change adaptation is still to be developed**. Dedicated actions for reducing vulnerabilities are still sporadic. To date, adaptation has occurred mainly ad-hoc, on a project basis. The majority of sectorial strategic and regulatory documents adopted during the previous two decades contain only indirect and fragmentary references that relate to climate change adaptation**.** Climate change related policy making, legislation and implementation responsibility is split to a number of sectorial ministries, with the Ministry of Environmental Protection as the key institution. The capacity of most ministries and local governments to integrate adaptation into policies and strategies needs to be strengthened.

The government’s roadmap is strategically oriented **toward accelerating the EU integration process,** since the adoption of a negotiation position by the government in January 2020 and its submission to the European Commission, particularly Chapter 27 discussions on Environment and Climate Change.

*Brief description of the Cities and Climate Change program in Serbia*

The proposed Cities and Climate Change program in Serbia is a **Public Policy Loan (PPL)** implemented as a parallel financing of the Public Sector Efficiency and Green Recovery DPL of the World Bank (P164575). Its amount is €50.5 Million comprising a €50 million loan and a 500K€ grant from AFD dedicated to Technical Assistance.

The program is based on **one prior action** (the Law on Climate Change enters into force) and **four expected results**, to be achieved by application of the law over the implementation period of the program : **(i) the NCCC is re-established and operational, (ii) Relevant by-laws accompanying Law on climate change are drafted and adopted, (iii) Public policy documents are approved and/or harmonized with the Law on Climate Change, (iv) A feasibility study is carried out to identify financing scheme options for local self-government unit's climate investments**. Rationale of the program’s policy matrix is built on the links between Prior action and Result Indicators (see Schedule 3B of the Credit Facility Agreement).

**By choosing the entry into force of the Law on Climate Change as the prior action of the matrix, this program directly echoes the renewed desire of the GoS to converge on the European Community acquis** and to initiate a virtuous energy and ecological transition that is compatible with economic growth and supporting employment (diversification of the economic model, strengthening of the region's economic attractiveness).

The program has **a structuring contribution to Serbia's low-carbon trajectory** through its action to unlock the adoption and implementation of the Law on Climate Change, a prerequisite for all the resulting change levers to be effective: mobilization of public actors, monitoring of GHG emissions and preparation of reports, alignment of sector strategies with the objectives of the Low Carbon Development Strategy (energy sectors but also potentially waste), mobilization of climate finance, etc.

The program matrix covers both mitigation and adaptation challenges to climate change, through the **adoption of the climate change adaptation program and the provision of measures for the urban sector**. By contributing to the integration of climate vulnerability assessment and adaptation measures into the revision of the National Sustainable Urban Development Strategy and by supporting **the identification of priority needs and projects (adaptation and / or mitigation action plan) in 2 pilot cities/municipalities,** the program will contribute to strengthen urban resilience, in particular in terms of Disaster Risk Reduction. It will contribute to improve quality of environment and a rational use of natural resources at local level, in particular through nature-based solutions (reduction of pollution, development of green spaces in urban areas). By carrying out a feasibility study on municipal finance, the program will identify several financing options to increase Self Local Government Unit climate investments and therefore support the **development of an institutional and financial framework for investments by local authorities.**

Several measures proposed under the program should help improve climate change (mitigation and adaptation) governance in Serbia, by formalizing a legislative framework, promoting the exchange of information and the coordination between public institutions, supporting **the operationalization of the NCCC** and **strengthening the capacities of** stakeholders in terms climate change planning, implementation as well as environmental and social aspects. In addition, by assessing financial mechanism for local self-governments, the program should promote their access to financial resources to facilitate climate investments.

The program will also contribute to better **gender equality** through the composition of the NCCC and the capacity building plan for the main ministries involved (gender approach). Likewise, at the level of the pilot cities/municipalities, vulnerability assessments (if needed), awareness campaigns on climate change and training will be conducted using a gender approach.

The achievement of the program's results indicators will be a condition for a new AFD’s PPL focusing on urban climate and environmental issues. The rationale of this potential second PPL would be to contribute to regular financing and monitoring of Serbian cities/municipalities climate mitigation and adaptation action plan, with an enhanced focus on urban sector and municipal level.

1. Country and Sector Background

* 1. Overview of Climate Change challenges in Serbia

**Serbia is highly vulnerable to climate change**: Between 1960 and 2012, significant increases in the daily mean, daily maximum and daily minimum temperatures were observed, with an average increasing trend of 0.3°C/decade; the mean annual temperature in the 2008-2017 period was 1.5°C higher than 1961-1990 (higher increase than the world average); heatwaves and extreme events are more frequent and more intensive; rainfall deficit, accompanied by an increase in intensive rainfall, has been observed during the summer; the number of days with precipitation of over 40mm was twice higher in 2008-2017 than 1961-1990. Current climate projections for Serbia under the mid-line and extreme scenario indicate the average temperature is likely to continue to increase by up to 2.2°C by 2050 and 3.4°C by 2100[[1]](#footnote-1).

**Climate change impacts are already evident**. South-Eastern Europe is identified among the most vulnerable regions in Europe, in terms of exposure to the negative effects of climate change, including adverse effects on the intensity and frequency of floods and droughts, and on the quality and quantity of yields of major crops. The vulnerability is accelerated by economic and social challenges that Serbian society is facing – the aging population, old and unfunctional infrastructure (particularly flood and erosion control infrastructure, water supply, waste and wastewater infrastructure), lack of financial resources, and organization ability to cope with climate change. Serbia’s recent history of floods and natural disasters has shown that rural low-income communities are particularly vulnerable to the impacts of climate change due to heightened water insecurity[[2]](#footnote-2), **increased health risks and reduced agricultural productivity.**

* It is estimated that about **18% of the territory of Serbia is vulnerable to floods**, including more than 500 major settlements, companies, and road infrastructure. Flood protection measures mostly rely on building embankments, though nature-based solutions could also contribute to substantially improve resilience.
* Climate change can have a direct or indirect impact **on public health**. Direct impact implies injuries, diseases, and fatalities resulting from climate change and extreme weather events (floods, heat waves, storms, etc.). The indirect impact includes the consequences for public health that are associated with the more frequent occurrence of vector-borne diseases, reduced air and water quality, as well as reduced availability of food and water.

Serbia’s first NDC quotes that **the damages caused by climate change and extreme weather events for the period 2000-2015 are estimated at minimum EUR 5 billion**. Of this amount, more than 70% are damages caused by droughts and high temperatures. Individual events with highest damages are the drought of 2012 (EUR 2 billion) and the floods of 2014 (EUR 1.7 billion). In the period 2000–2012, overall **economic losses from droughts alone amounted to 2.5 billion USD.**[[3]](#footnote-3)

**The energy sector remains the biggest source of GHG emissions**. Combustion of fossil fuels, in particular, are responsible for nearly 80% of GHG emissions, from which 69% originate from energy production facilities[[4]](#footnote-4), 11.7% from transport, 7.7% from manufacturing industries and construction, and 5.9% from other sectors. CO2 emissions due to fossil fuels increased by 10% from 2000 to 2016[[5]](#footnote-5).

**Key sectors concerned by climate change mitigation and adaptation within the urban context** **in Serbia** are district heating systems, mostly dependent on fossil fuel, that generate the most negative impact on GHG, and urban transportation, due to the increase of the number of private cars by 45% between 2001 and 2018. Air quality, flood protection, water (shortage and quality), and wastewater management are the urban issues that are most exposed to climate change. All the above-mentioned sectors rely heavily on cities and municipalities and their Public Utility Companies (PUCs) initiatives, while the cost of the investment is generally over the financial capacity of the Local Government Units (LGUs) to assume alone those investments.

* 1. Climate Change Related Institutional Framework

Serbia released the Initial National Communication in 2010 and the Second National Communication to UNFCCC in 2017.

**Serbia is committed under the Paris Agreement to reduce its GHG emissions by 33.3 % by 2030 compared to 1990 levels**, as presented in the new Nationally Determined Contribution (being finalized) under the Paris Agreement (2017). Also, in **the framework of the Energy Community Treaty**, Serbia committed to setting up 2030 energy and climate targets at **a level of ambition equaling that of the EU**. Increasing the share of renewable energy, improved energy efficiency, and modernization of industrial processes was foreseen as key areas for the reduction of energy related GHG emissions, while in the agriculture sector further development of livestock supplies was envisaged. For the waste management sector, a target was set to double the recycling rate by establishing several regional centers with waste separation plants and increasing the amount and capacity of recycling centers. But no estimates were computed on the expected GHG emissions reductions linked to achievement of recycling targets and implementation of the new roadmap on Waste Management.

**Strategic and legal framework**.

The Law on Climate Change, drafted with the support of two EU-funded Twinning projects[[6]](#footnote-6), was submitted to public hearing in 2018, has been adopted by the GoS on February 25,2021 and has been approved by the Serbian Parliament on March 18, 2021. It entered into force on March 31, 2021. The Law on Climate Change provides the establishment of a system for the GHG emission reduction and efficient adaptation to climate change, fulfilling the obligations to the international community, more precisely to the UNFCCC and the Paris Agreement as the main references. Also, the Law on Climate Change aims to ensure a legal basis for the adoption of a low-carbon development strategy (outlined in the Law) and a climate change Adaptation Program (see art.13 of the law), thus setting a system for adoption of policies and measures for GHG emission reduction and adaptation to climate change. As underlined above, the key issue facing this adoption is the decision to shift gradually from fossil fuels to renewable energies and its impacts on the national economy and employment.

The Climate Change Law prescribes the development of the Low Carbon Development Strategy (LCDS) and the Climate Change Adaptation Program and Action Plans. The LCDS has been drafted with the support of the EU IPA 2014. It covers the period 2020-2050, with an action plan for the period 2020-2030. The draft LCDS provides framework for development by the year 2050 accompanied by the GHG emission reduction, taking into account the EU development goals and priorities in line with Serbia’s status of the EU candidate country.

**A comprehensive national framework for climate change adaptation is still to be developed**.

* Dedicated actions for reducing vulnerabilities are still sporadic. To date, adaptation has occurred mainly ad-hoc, on a project basis. The majority of sectorial strategic and regulatory documents adopted during the previous two decades contain only indirect and fragmentary references that relate to climate change adaptation[[7]](#footnote-7). Most of them do not pay special attention to planning specific measures for mitigation or sectoral adaptation to changed climate conditions.
* The draft LCDS has developed the Adaptation Planning Framework, which provides a methodology for assessment and planning of adaptation measures for future polices and projects in sectors with the highest priorities in adaptation. The proposed framework is based on climate risk assessments and extreme weather events risk assessments, identifying adaptation measures and prioritizing them, while at the same time following the approach and guidance of the Intergovernmental Panel on Climate Change (IPCC). The framework provides a methodology for monitoring and evaluation of measures within the climate change adaptation plans.
* However, the draft LCDS focus adaptation action on mitigation sectors, reflecting the evident and special status of the energy sector, given the fact that the energy sector is the most important in terms of GHG emissions. Measures to address the vulnerabilities in three priority mitigation sectors (agriculture – food production; forestry – bioenergy; hydrology and water resources – hydro-electric production)[[8]](#footnote-8), mainly ensure that the mitigation potential, estimated for priority sectors, is not jeopardized by the impacts of climate change.
* The first draft National Adaptation Plan (NAP), developed in 2015 and containing adaptation measures for priority sectors, was never officially passed by the Government of Serbia. A new adaptation program, as requested under the Paris Agreement, is developed with the support of the Green Climate Fund, following the proposal officially submitted by the Ministry of Agriculture, Forestry, and Water Management. As far, the adaptation program, still expected, is anticipated to be a key element to create the policy and implementation environment while linking key sectorial measures. It will serve as a bridge to other cross-cutting initiatives, such as the National Disaster Risk Management Program (2015) and its Action Plan (2017-2020)[[9]](#footnote-9).

On the basis of the National Strategy for Protection and Rescue in Emergency Situation[[10]](#footnote-10) the Law on Disaster Risk Reduction and Emergency Management was adopted in 2018[[11]](#footnote-11). This Law introduced the obligation to develop Disaster Risk Assessments and Plans for Protection and Rescue at national level, at the level of units of local self-governments, companies, public health, social and educational institutions, and legal[[12]](#footnote-12).

The Emergency Management Sector of the Ministry of Internal Affairs conducted the Disaster Risks Assessment for the Republic of Serbia[[13]](#footnote-13), which was adopted in March 2019. This document defined natural and other disasters, which pose significant risks for lives and health of people, economy, environment and social stability. The risk assessment in this document was conducted on the basis of the scenario for the most likely adverse event and the scenario for the adverse event with the most severe consequences defined on the basis of historical data.

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| *Serbia CDN adaptation and mitigation (draft- December 2020)*  **Mitigation:**   * Unconditional emissions reduction: Reduction of GHG emissions by 13.2% in 2030 compared to 2010, which corresponds to a decrease of **33.3%** compared to 1990 (absolute target – Baseline scenario). * Conditional emissions reduction (Scenario with additional measures) is 28.7% compared to 2010 (45.2% compared to 1990) with appropriate financial, technical and technological assistance from the international community). * Sectors: Energy (including the energy industry, transport and the residential and service buildings sector), industrial processes (including, inter alia, the mineral, chemical and metal industries) and Industrial Processes and Product Use (IPPU), Agriculture, Forestry and other land use, Waste Sector (including solid waste disposal and wastewater treatment). LULUCF is not included, because the accuracy of the input data and the quality of the inventory are at an insufficiently high level. * Financial needs: - for absolute target (Baseline Scenario): € 6,511 million - the assistance of the international community is expected in part; - For conditional target (Scenario with additional measures): € 19,239 million compared to the Baseline Scenario - fulfilment is possible only with financial, technical and capacity building assistance from the international community   **Adaptation**   * **Sectors**: The sectors that are most vulnerable to climate change in Serbia include: agriculture, water management, forestry, biodiversity and public health. * NDC contains adaptation measures for these sectors as well as for Disaster risk reduction (DDR). * The NDC **does not indicate the total financial needs for adaptation options** implementation. A table at the end of the document indicate for each priority measure an estimation of the financial needs. * **Gender equality** was considered during the preparation and realization of stakeholder consultation during NDC preparation (gender related information will be included in final draft of NDCs revision). * **The Second Biennial Update Report** and the **Third National Communication are being prepared (2021).** |

**Institutional setting**

Climate change related policy making, legislation and implementation responsibility is split to a number of sectorial ministries, with the Ministry of Environmental Protection as the key institution. Its mandate is mostly consisting in acting as responsible institution for monitoring of the environmental protection and climate change policies, since other ministries and LGUs have the responsibilities to implement the strategies and the action plans. The Ministry of Mining and Energy is responsible for the production and distribution of energy, including the transition from fossil fuels to renewable energy sources and the operation of district heating systems for heat production. Local self-government units are responsible for communal environmental infrastructure, including water and wastewater infrastructure, district heating, energy efficiency in public buildings, etc.

**A lack of awareness about climate change adaptation and the links within existing programs and activities**. Although it can be said that Serbia has taken initial steps in establishing an effective institutional framework for climate response, it is evident that there is a lack of awareness about climate change adaptation and the applications to be developed within sectors programs and activities. Technical knowledge and the overall capacity of professionals involved in the planning and implementation of sectoral climate change adaptation policies and measures require further improvement.

**The capacity of most ministries and local governments to integrate adaptation into policies and strategies needs to be strengthened**. Effort has been made by the MoEP to develop an Adaptation Planning Framework (with UNDP support). In addition, SKGO with the support of UNDP brings technical assistance to LGUs in developing Local Adaptation Plans[[14]](#footnote-14). Those efforts need to be increased and coordinated with other structural aspects such as investment planning and financing in order to enable inclusion in existing national processes and systems.

The sectoral approach is very common in the planning and implementation of national climate change policies and plans, with a noticeable **lack of multi-sectoral coordination mechanisms**. Different ministries and agencies focus on different aspects of climate change without sufficient integration and appropriate mechanisms to achieve it. Limited cross-sectoral cooperation is **particularly reflected in the planning of climate change adaptation measures and disaster risk reduction measures** at the national and local levels.

**Serbia has begun establishing the institutional structure for climate change policy coordination by the establishment of National Climate Change Council (NCCC) in 2014**. The NCCC brings together representatives of key government institutions, government agencies, the research community and civil society and has an advisory role in policy making, monitoring and evaluation of climate change-related actions. However, the NCCC has not yet established appropriate institutional and operational arrangements for climate change adaptation. In practice NCCC met only one time since 2014. Its mandate and composition need to be specified in accordance with the general provisions introduced by the draft Law on Climate Change.

**There are still no adequate financial incentives for climate change adaptation and mitigation activities, both for the relevant sectors and for different levels (national and local)**. There is a lack of clearly defined and available funding mechanisms to support the integration of climate change adaptation measures into key economic sectors. The lack of financial resources at the local level for harmonization with the requirements, policies and laws that regulate the field of adaptation to climate change is especially noticeable.

The overall investment effort of cities and municipalities is around EUR 400 million per year (15% of their total revenue and only 14% of their total expenditure). The Fiscal Council *(Serbian public body independent from the Ministry of Finance*) estimates that the additional effort required in terms of investment in favor of environmental protection is EUR 500 million, of which up to EUR 100 million could be financed by LGUs (equivalent to a quarter of their annual investment capacity). The latter cannot assume these investments alone, without dedicated public financial mechanisms at the local level being structured to compensate for this financing gap, also associated with a deficit in upstream planning.

* 1. The Government’s Roadmap

**The GoS roadmap is strategically oriented towards accelerating the EU accession process**, with the objective of making Serbia an EU Member State by 2025. This objective is reiterated in all official communications from the authorities, despite delays in the negotiation process of the various chapters of the Acquis communautaire as noted by the latest European Commission report on Serbia published on October 6, 2020. With regard to the Chapter 27 negotiations, the key milestones are in the short term (i) the adoption by Parliament of the climate law and its entry into force, and consequently: (ii) the adoption of the main decrees of application of the law, (iii) the finalization and approval of the strategy and action plan for low-carbon development, and its variations in operational action plans - or revision of existing action plans - on various sectors concerned (water, energy, waste, transport, urban), and (iv) the drafting and approval of a climate change adaptation program. The negotiating mandate was adopted in January 2020. The importance of this achievement is reinforced by the European Green Pact presented in December 2019 as well as by the adoption by the heads of state of the region of the Green Agenda for the Western Balkans at the Sofia summit on 10 November 2020.

**The PPL proposed by AFD as a parallel financing of the World Bank DPL is consistent with the Government’s objective of making more effective use of public resources by improving fund allocations and structural reforms regarding sectors impacted by environment and climate change.** In particular, environmental quality improvement of infrastructure delivered at the local and central level is considered as a priority and should be improved through the present PPL. Climate change Strategy and Action Plan still under development should guarantee alignment of the sectors investment policies with EU environmental and climate change commitments. Contribution of Cities and Municipalities to the implementation of the national sustainable green growth is also considered with the adoption by more and more LGUs of Local Climate Change Adaptation Action Plan. The MCTI also approved in 2019 a Sustainable Urban Development Strategy of the Republic of Serbia which incorporates the issues of environment and climate change within investment municipal planning and implementation. Action plan for the implementation of this strategy (covering both mitigation and adaptation) has been elaborated and submitted on November 16th to public hearing (up to the 7th of December 2020). Full effectiveness of those documents is hampered by the lack of resources at the local level and also some governance issues such as coordination between central and local levels.

2. The Proposed Program

* 1. General presentation

The proposed Cities and Climate Change program in Serbia is a PPL implemented as a parallel financing of the Public Sector Efficiency and Green Recovery DPL of the World Bank (P164575). Its amount is €50.5 Million comprising a €50 million loan and a 500K€ grant from AFD (already earmarked to this program and contracting phase finalized).

The PPL aims **to support the Government of Serbia’s effort to create the foundations for more sustainable green growth and urban development**, through supporting climate change adaptation and mitigation initiatives at both national and urban/municipal levels in Serbia. It will be implemented over a two-year period, once the prior action is completed (entry into force of the Climate Change law). It complements the rationale of Pilar II (“green growth”) of the World Bank DPL by a complementary matrix of Result Indicators.

By choosing the entry into force of the law on climate change as the prior action, this program directly echoes the renewed desire of the GoS to converge on the Community acquis and to initiate a virtuous energy and ecological transition that is compatible with economic growth.

The program has a **structuring contribution to Serbia's low-carbon trajectory** through its action to unlock the adoption and implementation of the climate law, a prerequisite for all the resulting change levers to be effective: mobilization of public actors, monitoring of GHG emissions and preparation of reports, alignment of sector strategies with the objectives of the low carbon strategy (energy sectors but also potentially waste), mobilization of climate finance, etc. It should be noted that pillars 1 and 2 of the WB program will simultaneously (i) strengthen green procurement in order to encourage sober and efficient technologies and processes (efficient management of raw materials, water, energy) and (ii) reduce pollution.

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| Second/revised Serbia's nationally determined contribution for mitigation[[15]](#footnote-15) (draft January 2021): details 14 mitigation actions (implementation plan, based on the Action plan for implementation of the LCDS and 2nd BUR)[[16]](#footnote-16). 2 will rely mainly on state budget for a total amount of 263 million € over ten year (26,3 million € per year): Action 7: Improving energy efficiency and use of RES in the Tertiary sector (94,4 million €; 2021/2030); Action 8: Improving thermal integrity in the Tertiary sector (168 million € / 2022 – 2030).  As such, **it is possible to estimate that the cumulative amount of the AFD-BM loan for 135 million € would cover**:   * more than half (51,3 %) the cost (additional than those for the BaU) identified as “investments from the state budget for 2020/2030 (19% for AFD loan only); * nearly 9% of the investment expenditure provided for in the central government budget in the 2021 finance law (a little more than 3% for the AFD loan alone), and up to 13% of the investment expenditure of MCTI, the main ministry in charge of infrastructure investments in transport and urban area at national level. |

* 1. Rationale, Result Indicators and Policy Actions of AFD proposed PPL

**Rationale and organization of the program.**

The program is based on **one prior action** (the Law on Climate Change enters into force) and four expected results, to be achieved by application of the law over the implementation period of the program: (i) the NCCC is re-established and operational, (ii) Relevant by-laws accompanying Law on climate change are drafted and adopted (iii) Public policy documents are approved and/or harmonized with the Law on Climate Change (iv) A feasibility study is carried out to identify financing scheme options for self-local government unit's climate investments.

The achievement of the program's result indicators will be a condition for a new public policy loan focusing on climate and environmental issues in urban areas. This multi-year public policy dialogue will be mentioned in a Development Policy Letter that will be sent by the Government of Serbia to AFD prior to the presentation of the PPL to AFD decision body.

**Proposed Result Indicators of the PPL.**

Four result indicators are identified as crucial for the implementation of the Law on Climate Change and the achievements of Serbia's sectoral climate policy commitments - especially at local / urban level. It is expected they would be achieved through a list of activities and interim targets to be assessed, for each result indicator, over the PPL’s two years monitoring framework (targets for Y+1 and Y+2 following the date of the entry into force of the Law on Climate Change) ( see Schedule 3B of the Credit Facility Agreement).

* **Result indicator #1:** TheNCCC is re-established and operational.

*The objective is to make the NCCC operational to ensure efficient inter-ministerial coordination for the implementation of the Law on Climate Change. The composition, mandate and modes of operation of the NCCC are not defined by the Law on Climate Change. The capacities of its members (representatives of key government institutions and agencies, research institutions and civil society, etc.) will need to be significantly strengthened to ensure the efficiency, representativeness and independence of the NCCC whose role is to advise the Government. Holding two sessions per year is the goal. The proceedings will be made public and accessible to the media.*

* **Result Indicator #2:** Relevant by-laws accompanying Law on climate change are drafted and adopted

*11 by-laws need to be drafted and adopted under the Law on Climate Change binding and operational: 6 by-laws on Y+1 of the program; 5 additional by-laws on Y+2 of the program. The program will also support the assessment and identification of capacity building needs in line ministries to implement the by-laws and the Government’s climate roadmap.*

*The program will contribute to support the updating of the National Waste Management Strategy and its action plan, keeping in mind a future loan for local authorities (currently under identification).*

* **Result Indicator #3**: Public policy documents are approved and/or harmonized with the Law on Climate Change.

*The Law on Climate Change sets a maximum period of two years for adopting the Low-Carbon Development Strategy and its action plan. A first draft of a Low-Carbon Development Strategy (covering both mitigation and adaptation aspects) and action plan is already available. The main challenge is to align sectoral policies with quantified GHG emission reduction targets for 2030 and 2050 as defined in the strategy and the new NDC being formalized. The strengthening of GHG emission inventories is underway (UNDP – MRV system – see R#2).*

*The Law on Climate Change requires an assessment of vulnerability to climate change for sectors most affected by climate change and consistency with the adaptation program in public policy documents. The program will therefore support the vulnerability impact assessment of urban sector to strengthen climate adaptation into the National Sustainable Urban Development Strategy. It will also support two selected LSGs in the identification of climate priority needs and projects (considering both adataption and mitigation).*

**Result Indicator #4**: A feasibility study is carried out to identify financing scheme options for self-local government unit's climate investments.

*The Law on Climate Change and the Low Carbon Development Strategy project do not contain any provision on budgeting and financing of climate change investments. However, via its Fiscal Council, the MoF estimated in 2018 the additional budgetary expenditure needs for environmental protection at EUR 500 million per year, or EUR 8.5 billion over 10 years, including EUR 100 million per year for the local collectives. On the basis of a diagnosis of local municipal finances based on two sample pilot cities, the program will help define one or more preferential financing scenario(s) for these investments. This challenge is decisive in achieving the objectives of GHG emission reduction included in the Low-Carbon Development Strategy.*

* 1. Institutional arrangements: Implementation, monitoring and evaluation

The PPL will support and monitor expected results and dedicated activities during a period of two years (following the date of the entry into force of the Law on Climate Change). Four main stakeholders are primarily concerned by the implementation of the program whose objectives are to support resilient cities’ development:

* **The Ministry of Finance (MoF)** represents the Republic of Serbia as a borrower, and is responsible for the choices and modalities of Serbia's external indebtedness to international donors.
* The **Ministry in charge of Environmental Protection (MoEP**) is the key institution in the Environment and Climate Change Sector, responsible for policy making, legislation and enforcement for, inter alia, air quality, climate change, and protection of water bodies from pollution**. MoEP** is lead institution in the Negotiating Group for Chapter 27 - Environment and Climate Change, and thus responsible for reporting to the European Commission (EC) on the overall progress during EU negotiations process and it also coordinates activities with other institutions involved in environmental and climate change acquis implementation. Also, MoEP is responsible for the process of implementing, monitoring /reporting on EU assistance in Environment and Climate Change Sector, including the construction of municipal wastewater collection (sewage) and treatment systems, in relations with the MCTI.

In addition, the Ministry of Environmental Protection, Climate Change Unit is the UNFCCC focal point, and provides ad-hoc secretariat services to the NCCC. The Ministry of Environmental Protection is also the main Government institution responsible for coordination of the process of preparation of National Communications and Biennial Update Reports, and for overall compliance and coordination with UNFCCC and EU climate policy requirements. Following the new Government of Serbia elected in October 2020, the MoEP has strengthened its organization - with the creation of a Local Self-Government Department to strengthen its links with local authorities.

It is therefore this Ministry that will ensure the overall coordination of the Cities and Climate Change program within the government and the mobilization of all stakeholders.

* The **Ministry of Construction Transport and Infrastructure** (MCTI) is in charge of strategic planning and steering of public investment programs, including at the city level through its urban planning and housing department. It also exercises central supervision over several public service companies, notably companies in the railway sector.
* **The Ministry of Agriculture, Forestry and Water Management** is the GCF focal institution and also the ministry in charge of the most climate-vulnerable sectors in Serbia[[17]](#footnote-17). The Unit for Climate Change in agriculture within this particular ministry has the responsibility for inclusion of climate change issues into sectoral policies and legislation, among others.

Other ministries (such as the Ministry of Mine and Energy – MoME) cover areas that have significant impact on climate. The energy component of the climate roadmap (Energy Law and Energy Efficiency Laws under revision, Renewable Energy Law under preparation) will be addressed by an other public policy loan to be supported by the donors (WB, EU, KfW, AFD).

**Local Self Government (LSG) Units** under the supervision of the **Ministry of Public Administration and Local Self-Government** have responsibilities for communal environmental infrastructure including water and wastewater infrastructure, district heating infrastructure, energy efficiency in public buildings, etc. Public Utility Companies are under the responsibilities of the Local Self-Government.

In addition, given its advisory role in policy development, monitoring and evulation of climate change actions, **the NCCC** with its strengthened mandate and membership is expected to give advice on all the official documents to be approved within the context of the PPL.

* **Sub-Steering Committtee**

A sub-steering committee – common with the WB on its DPL and related to the implementation of the Law on Climate Change - will be set up to monitor the achievement of the results of the matrix. The Sub-steering committee will meet twice a year and will be chaired by the MoF, with the MoEP designated as the lead technical ministry. More technical working groups will be set up to monitor the work conducted by the ministries and other entities involved in the four expected results and associated activities. It is envisaged that other institutional partners involved in supporting Serbia's climate roadmap will be invited as observers, first and foremost the EU, and also (depending on the agenda) UNDP and Swedish Cooperation.

These stakeholders also meet as part of donors' coordination group (currently chaired by Germany and Sweden) looking at environment and energy sectors. The coordination group aims at identifying strategic and technical issues of common interest related to the climate roadmap, with the objective of bringing them up to the political level. Particular attention will be devoted to optimizing synergies between this coordination group and the dialogue conducted with the Serbian authorities in the framework of the joint PPL/DPL steering committee.

* **Monitoring and evaluation system for the program**

**AFD will monitor the status of the program implementation through supervision missions, participation to the sub-steering committee and tracking results indicators** provided in the policy and results matrix. These missions undertaken by AFD will enable the Technical Assistance program to be adjusted according to the needs identified to achieve the expected results. The missions will also contribute to the national dialogue on the climate roadmap and, at the same time, identify the next actions to be promoted through a second public policy loan. Above this, annual reporting from the MoEP is expected.

* 1. Disbursement

The PPL is a single-tranche AFD loan. The loan is made available as the prior action has been completed. The AFD loan is completed by a €500,000 grant to cover TA in charge of supporting the GoS in the achievement of the 4 result indicators presented in the matrix.

The TA grant envelope has already been committed (through a framework service contract managed by AFD).

* 1. Technical assistance

**The Technical Assistance directly under the supervision of AFD** (€500,000 as a grant) will be mobilized to support counterparts in the implementation of the matrix of activities.

The technical assistance will be involved in supporting the GoS in the achievement of the 4 result indicators presented in the matrix :

* Result n°1 : The TA will support the sustainable implementation and re-establishment (mandate, mode of operation, composition, etc.) of the NCCC. It will facilitate the sessions’ organization (tools, process, interministerial coordination) planned during the two-year of the program.
* Result n° 2: The TA will support the MoEP in the identification of capacity building measures to support the main institutional stakeholders in the implementation of the Low Carbon Development Strategy. In addition, the TA will, if needed, provide support for drafting certain by-laws.
* Result n° 3: the TA will support the MoEP to strengthen climate adaptation (vulnerability assessment of urban sectors and adaptation priority measures for local) into the sustainable urban development strategy. At local level, it will contribute to the identification of climate priority needs and projects (climate action plans) on an experimental basis in 2 selected pilot LSGs
* Result n° 4: the TA will support the realization of the feasibility study for the establishment of financial mechanisms to facilitate climate change investments at local level.

Besides this Technical Assistance, the AFD through its initiative “Organizational transformation for Counterparts of Tomorrow” will support the institutional and organizational development of the MoEP. The actions envisaged will not only strengthen operational performance but also contribute to the MoEP's capacity to manage the current program (both on climate and environmental and social aspects).

1. E&S Risks assessment

The direct environmental and social impacts of the program will be limited since the PPL does not aim to finance investments. However, the Adaptation Program could lead to environmental and social risks over time. This is why the programme’s matrix integrate the need for elaborating a Strategic Environmental and Social assessment of the Adaptation Program.

The draft low-carbon development strategy has identified the main environmental and economics impacts of its action plan through its Strategic Environmental Impact Assessment (draft from January 2020). Until its adoption, these elements will be updated, with the support of the EU and UNDP.

The capacity building plan for the main ministries involved in the implementation of the climate roadmap will integrate aspects of capacity building at the environmental and social levels.

The program will also focus on better taking into account environmental and social issues in the urban sustainable development strategy. Thus, at the level of the pilot cities, the environmental and social risks linked to the proposed adaptation measures will be assessed. The capacities of local communities to identify these risks and mitigate them will also be strengthened.

SCHEDULE 3A - Financing Plan

|  |  |  |
| --- | --- | --- |
| **Financing Plan** | **Amount (EUR million)** | **%** |
| **AFD** | **50,000,000** | **38** |
| **Co-financier** |  |  |
| * IBRD | **82,600,000** | **62** |
| **Total** | **132,600,000** | **100** |

SCHEDULE 3B – monitoring chart

|  |
| --- |
| **AFD – 50 M€ Public Policy Loan (PPL)** |
|  |
| **→ One trigger for single disbursement (Prior Action): The Borrower has enacted the Law on Climate Change (published in the Borrower’s Official Gazette No.26/2021 on March 23, 2021 and entered into force on March 31, 2021) which mandates the preparation and adoption of the Low-Carbon Development Strategy and its Action Plan and the Climate Change Adaptation Program, to establish systems to reduce GHG emissions and support climate adaptation in a cost-effective and economically viable manner** |
|  |
| **→ One matrix of results indicators with objectives and activities (two-years implementation period) which achievement is a condition for a future Public**  **Policy Loan in the urban sector.** |
|  |
| **→ AFD grant (€500,000) dedicated to Technical Assistance program** |
|  |
| **→ Ministry of Environmental Protection (MEP) is the line Ministry for the whole matrix:** |
| **- Climate Change Department, including Climate Change Adaptation Unit** |
| **- Project Management Department** |
| **- Waste Management Department** |
| **- Self-Local Government Unit Department** |
|  |
| (Start of Y0 = March 31, 2021, i.e. the date on which the Law on Climate Change entered into force) |

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| **Objectives and activities** | | | **Focal point in the MEP** | **Other stakeholders involved** | **Technical Assistance** | **Baseline** | **Achieved if** |
| **Results Indicator #1: The National Climate Change Council (NCCC) is re-established and operational** | | | | | | | |
|  | **Objective by the end of Y+1 : The NCCC with strengthened mandate and membership is re-established as defined in the Law on Climate change** | | | | | | |
| **1.1** | **1.1.1** | The NCCC to provide expert opinion and oversight for the implementation of the Law on Climate Change is re-established and operational. | *Climate change Department* | - | AFD TA activities : (i) Support the definition of roles, procedures, mandate, composition (gender approach), (ii) Provide recommandations on tools for communication, (iii) Provide templates for reporting. | *NCCC*  *established in 2014 but not fonctionnal* | Council members are appointed by the Government, the Council has adopted its rules of procedures. |
| **1.1.2** | Session n°1 is held. | *Climate change Department* | - | AFD TA activities : (i) Support the NCCC secretariat to report to the Government, (ii) Enhance technical skills of NCCC members, (iii) Promote interministerial coordination | *The NCCC met only one since 2014* | The NCCC mandate is approved, a two-year agenda with key documents to be reviewed by end Y+2 is approved by the NCCC, Minutes of meeting are made public (on Website). |
| **1.1.3** | Session n°2 is held (following the 26th session of the Conference of the Parties (COP 26) to the United Nations Framework Convention on Climate Change (UNFCCC) scheduled to take place in November 2021) | *Climate change Department* | - | Minutes of meeting are made public (on Website). |
|  | **Objective by the end of Y+2 : The NCCC holds at least two meetings and is fully operational** | | | | | | |
| **1.2** | **1.2.1** | Session n°3 is held. | *Climate change Department* | - | AFD TA activities : (i) Support the NCCC secretariat to report to the Government, (ii) Enhance technical skills of NCCC members, (iii) Promote interministerial coordination | *The NCCC met only one since 2014* | Minutes of meeting are made public (on Website) |
| **1.2.2** | Session n°4 is held. | *Climate change Department* | - | The draft low carbon development strategy and action plan, and the draft adaptation program are presented to the NCCC members and discussed.  Minutes of meeting are made public (on Website). |

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| **Objectives and activities** | | | **Focal point in the MEP** | **Other stakeholders involved** | **Technical Assistance** | **Baseline** | **Achieved if** |
| **Results Indicator #2: Relevant by-laws accompanying Law on climate change are drafted and adopted** | | | | | | | |
|  | **Objective by the end of Y+1 : 6 relevant climate change by-laws are adopted** | | | | | | |
| **2.1** | **2.1.1** | 6 by-laws needed for the implementation of the Law on climate change are adopted. | *Climate change Department* | - | AFD TA activities : if needed, support for drafting of certain by-laws will be decided during the TA kick off meeting | *No by-laws drafted* | 6 by-laws are adopted by the GoS |
| **2.1.2** | Following the 26th session of the Conference of the Parties (COP 26) to the United Nations Framework Convention on Climate Change (UNFCCC) scheduled to take place in November 2021, the program steering committee specifies whether amendements of the law on climate change and relevant by-laws are needed. | *Climate change Department* | *Focal points in each line ministries* | - | *The COP 26*  *hasn't been held.* | If required, the program steering commitee update the policy loan matrix (activity 2.2.1), which is satisfactory to AFD. Minutes are available. |
|  | **Objective by the end of Y+2 : Additional climate change by-laws are adopted** | | | | | | |
| **2.2** | **2.2.1** | Pending finalization of the Katowice Rulebook and adoption of the EU Climate Law and finalization of the low carbon development strategy, amendments of the law on climate change and drafting of relevant by-laws may be needed. | *Climate change Department* | - | AFD TA activities : If needed, support for drafting of certain by-laws will be decided by the steering committee | *The COP 26*  *hasn't been held.* | If needed, the admendements of the law on climate change and additional climate change by-laws are adopted by the Government and published in the Official Gazette of the Republic of Serbia |
| **2.2.2** | 5 by-laws needed for the implementation of the Law on Climate Change are adopted. | *Climate change Department* | - | AFD TA activities : if needed, support for drafting of certain by-laws will be decidedby the steering committee | *No by-laws drafted* | 5 by-laws are adopted by the GoS |
| **2.2.3** | MRV system for the fulfillment of obligations to UNFCCC is set up. | *Climate change Department* | - | UNDP TA | *On-going* | The Government has specified the form, content and time limits for the submission of the biennial reports on the implementation of the low carbon developement strategy and action plan (Article 64, draft law on Climate change). IT tools are consistent for the MRV system. |
| **2.2.4** | Identification of capacity building needs in line ministries to implement the by-laws. | *Climate change Department* | *Focal points in each line ministries* | AFD TA activities (Y1 and Y2): (i) Capacity building needs assessment for lines ministries (both collective and individual: monitoring, IT tools, environmental and social aspects, etc.), (ii) elaboration of capacity building plan. | *No identification of capacity building needs* | Capacity building plan available (organigram, profiles, training) and ready to be implemented |
| **2.2.5** | The process of updating sectoral strategies is launched in line with contribution to GHG emissions reduction of the low carbon development Strategy. In particular, the draft solid waste management strategy and action plan (2019/2024) is being updated. | *Waste Management Department* | *MEP (Climate change Department)* | - | *Draft solid waste management strategy and action plan* | The solid waste management strategy and action plan is revised and approved |

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| **Objectives and activities** | | | **Focal point in the MEP** | **Other stakeholders involved** | **Technical Assistance** | **Baseline** | **Achieved if** |
| **Results Indicator #3: Public policy documents are approved and/or harmonized with the Law on Climate Change** | | | | | | | |
|  | **Objective by the end of Y+1 : Preparation of local climate change action plans and adaptation strategies in accordance with relevant public policy documents started** | | | | | | |
| **3.1** | **3.1.1** | The sustainable urban development Strategy and Action plan are revised in compliance with Articles 14-5 and 15 of the Law on Climate change. | *Climate Change Department* | *MCTI* | AFD TA activities at the national level: (i) Urban sector vulnerability impact assessment (including gender approach), (ii) Definition of adaptation priority measures at the local level (including a urban, environmental and social development approach). | *The Strategy and Action plan is in the inter- ministerial consultation phase* | Urban sector vulnerability impact assessment is achieved and the sustainable urban development Strategy is revised to include a definition of adaptation priority measures at the local level. |
| **3.1.2** | Local self governements are selected (as pilot cities or municipalities) for the preparation of local action plans (mitigation and/or adaptation) in accordance with relevant national policy documents | *Climate Change Department* | *MC TI*  *MEP (Self-Local Government Unit Department)* | AFD TA activities at the national level: (i) selection of pilot cities (multi-criteria analysis, call for expression of interest, etc.), (ii) (one of the folllowing activity par city if needed) vulnerability assessment participatory diagnosis (including gender approach) or diagnosis on GHG emission at local level (to prepare a mitigation plan), (iii) development of local adaptation/mitigation plans for selected local self governements (including environmental and social impact assessment), (iv) capacity building for local self governements (including on environmental and social aspects), (v) awareness raising, (vi) (including a transversal gender approach for the previous items), (vii) peer to peer partnership to be developed. | *No experimentation* | At least 2 local self governements are selected to develop local action plans. |
| **3.1.3** | Pilot cities and municipalities selected for:   1. an assessment of adaptation/mitigation priority needs (participatory diagnosis on climate change risks assessment, adaptation option - if possible including nature based solutions- and plan, capacity assessment), 2. the identification of a pipe of adaptation/mitigation projects. | *Climate Change Department* | *MCTI MOF*  *MinAgri MEP (Self-Local Government Unit*  *Department)* | *No experimentation* | At least 2 local self governements have established an assessment of adaptation/mitigation priority needs and pre-identified priority projects for adaptation/mitigation |
| **3.1.4** | In pilot cities, actions are implemented to ensure awareness raising and stakeholders participation on adaptation to climate change. | *Climate Change Department* | *MCTI*  *MinAgri MEP (* Self-Local Government Unit  Department) | - | *Lack of awareness on climate issues at the cities level* | Actions for awareness raising on adaptation and disaster risk reduction are carried out (education, training for new skills). |
|  | **Objective by the end of Y+2 : The low carbon development strategy (and action plan) and adaptation program are approved** | | | | | | |
| **3.2** | **3.2.1** | The low carbon development strategy and action plan are finalized in compliance with relevant EU climate acquis and GHG emissions reduction commitments taken under the Paris Agreement. | *Climate Change Department* | *MoME (because of NECP)* | - | *Draft low carbon development strategy and action plan in a phase of consultation* | The low carbon development Strategy and Action plan are adopted by the Government and published in the Official Gazette of the Republic of Serbia. |
| **3.2.2** | The Adaptation Program, including an environmental and social strategic assessement, is achieved and submitted to the Cabinet. | *Climate Change Adaptation Unit* | *MinAgri* (line ministry in charge of the adaptation program) | - | *A draft of the Adaptation Program is on- going* | Tha Adaptation Program is adopted by the Government and published in the Official Gazette of the Republic of Serbia. |

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| **Objectives and activities** | | | **Focal point in the MEP** | **Other stakeholders involved** | **Technical Assistance** | **Baseline** | **Achieved if** |
| **Result Indicator #4: A feasibility study is carried out to identify financing scheme options for self local government units climate investments** | | | | | | | |
|  | **Objective by the end of Y+1 : Feasibility study to identify financing schemes options for is on-going** | | | | | | |
| **4.1** | **4.1.1** | The first part of the feasibility study is conducted on the sample of two pilot cities or municipalities, including:   * A diagnosis of municipal finances (including PUCs): weaknesses and strengths; * A diagnosis of the Public Finance Management at the local level (based on the sample of pilot cities). | *Climate Change Department* | *MEP ( Project Management Department) MOF* | AFD TA activity: feasibility study (part 1) | *No Financing scheme to increase climate investment of self local governement units.* | The first part of the feasibility study is achieved. |
|  | **Objective by the end of Y+2 : Feasibility study to identify financing scheme options for SLGUs climate investments is achieved and a dialogue on external contribution of donors to the** | | | | | | |
| **4.2** | **4.2.1** | The second part of the feasibility study is conducted on the sample of two pilot cities or municipalities, including:   * Proposal of several financing options to increase Self Local Government Unit climate investment   A dialogue between the Government and donors is launched on:   * Means for the effective implementation of the different options of financing scheme * Donors contribution to the mechanism | *Climate Change Department* | *MEP (Project Management Department) MOF*  *MCTI*  *Donors* | “*Public financing is the catalyst of the implementation of the climate strategy – a upgrading and streamlining of these instruments may be required* ” (draft low carbon development Strategy, p.35).  AFD TA activity : feasibility study (part 2) | *The first draft of the feasibility study is achieved* | The feasibility study is presented to the steering committee members and a first meeting to launch the dialogue with donors is held. |

Schedule 4 - Conditions Precedent

The following applies to all documents delivered by the Borrower as a condition precedent:

* if the document which is delivered is not an original but a photocopy, the original Certified photocopy shall be delivered to the Lender;
* the final version of a document which draft was previously sent to, and agreed upon by the Lender, shall not materially differ from the agreed draft;
* documents not previously sent and agreed upon, shall be satisfactory to the Lender.

**Part I – Conditions Precedent to be satisfied on the Signing Date**

1. Delivery by the Borrower to the Lender of a Certified copy of a conclusion of the Government of the Republic of Serbia approving the report from the negotiations with regard to conclusion of this Agreement, approving the borrowing by the Borrower under this Agreement and expressly authorizing Minister of Finance of the Republic of Serbia to execute this Agreement;
2. A certificate of the Borrower (signed by authorized signatory) confirming that (i) borrowing the total Facility commitments would not cause any borrowing, guaranteeing or similar limit binding on the Borrower to be exceeded, and (ii) that the public debt loan under this Agreement is within the limits set by the law governing the budget of the Republic of Serbia.

**Part II - Conditions Precedent to the effectiveness of the Agreement**

1. This Agreement has been duly signed by the Lender and the Borrower;
2. Delivery by the Borrower to the Lender of the following documents:
3. An original of the legal opinion from the Minister of Justice customary for this type of transaction in form and content satisfactory to the Lender with certified copies (each with an official translation into the language of this Agreement) of all documents to which such legal opinion refers, demonstrating that the Agreement is legally effective and enforceable and, in particular: (i) that the Borrower has met all requirements under its constitutional law and other applicable legal provisions for the valid assumption of all its obligations under this Agreement, (ii) that no official authorisations, consents, licenses, registrations and/or approvals of any governmental authority or agency (including the National Bank of Republic of Serbia) are required or advisable in connection with the execution and performance of this Agreement by the Borrower (including without limitation that all amounts due by the Borrower to the Lender under this Agreement whether as principal or interest, late payment interest, Prepayment Indemnity, incidental costs and expenses or any other sum are freely convertible and transferable), (iii) that choice of French law to govern this Agreement and the submission to arbitration are valid and binding, as well as that arbitration awards against the Borrower will be recognized and enforceable in the Republic of Serbia, and (iv) that neither the Borrower nor any of its property has any right of immunity from arbitration, suit, execution or other legal process;
4. Evidence of the enactment by the National Assembly of the Republic of Serbia of the law ratifying this Agreement (together with evidence of such law being promulgated by the President of the Republic of Serbia) and published in the Official Gazette of the Republic of Serbia;
5. Confirmation of the Ministry of Finance of the Republic of Serbia that this Agreement has been duly evidenced therewith.

**Part III - Conditions Precedent to the Drawdown**

(e) This Agreement has become effective upon the satisfaction of the conditions stipulated in the PART

II of this Schedule 4 of the Agreement;

(f) Delivery by the Borrower to the Lender of the evidence of enactment, promulgation, publication in the Official Gazette and entry into force of the Law on Climate Change;

(g) Delivery by the Borrower to the Lender of a copy of the government conclusion appointing and authorising persons to sign the Drawdown Requests and a certificate of specimen of the signature of each person listed in this conclusion;

(h) Payment by the Borrower to the Lender of all fees and expenses due and payable under this Agreement.

SCHEDULE 5A - Form of Drawdown Request

*[on the Borrower’s letterhead]*

To: Agence Française de Développement

On: [*date*]

**Borrower’s Name – Credit Facility Agreement n**° **[●] dated [●]**

**Drawdown Request n°[●]**

Dear Sirs,

1. We refer to the Credit Facility Agreement n° [●] entered into between the Borrower and the Lender dated [●] (the “**Agreement**”). Capitalised words and expressions used but not defined herein have the meanings given to them in the Agreement.
2. We irrevocably request that the Lender makes a Drawdown available on the following terms:

Amount: EUR [●] or, if less, the Available Credit.

Interest Rate: [*fixed / floating*]

Proposed Drawdown Date: [*optional*]

1. The Interest Rate will be determined in accordance with the provisions of Clause 4 (*Interest*) and Clause 5 (*Change to the calculation of interest*) of the Agreement. The Interest Rate applicable to the requested Drawdown will be provided to us in writing and we accept this Interest Rate [(subject to the paragraph below, if applicable)], including when the Interest Rate is determined by reference to a Replacement Benchmark plus any Adjustment Margin as notified by the Lender following the occurrence of a Screen Rate Replacement Event.
2. We confirm that each condition specified in Clause 2.4 (*Conditions precedent*) is satisfied on the date of this Drawdown Request and that no Event of Default is continuing or is likely to occur. We agree to notify the Lender immediately if any of the conditions referred to above is not satisfied on or before the Drawdown Date.
3. The proceeds of this Drawdown should be credited to the following bank account:

|  |  |
| --- | --- |
| * 1. Name [of the Borrower]: | [●] |
| * 1. Address [of the Borrower]: | [●] |
| * 1. IBAN Account Number: | [●] |
| * 1. SWIFT Number: | [●] |
| * 1. Bank and bank’s address [of the Borrower]: | [●] |
| * 1. Correspondent bank and account number of the Borrower’s bank: | [●] |

1. This Drawdown Request is irrevocable.
2. We have attached to this Drawdown Request all relevant supporting documents specified in Clause 2.4 (*Conditions precedent)* of the Agreement:

[List of supporting documents]

Yours sincerely,

Authorised signatory of Borrower

Schedule 5B - Form of confirmation of drawdown and rate

*[on Agence Française de Développement letterhead]*

To: [*the* *Borrower*]

Date: [●]

Ref: Drawdown Request n° [●] dated [●]

**Borrower’s Name – Credit Facility Agreement n**°**[●] dated [●]**

**Drawdown Confirmation n°[●]**

Dear Sirs,

1. We refer to the Credit Facility Agreement n°[●] entered into between the Borrower and the Lender dated [●] (the “**Agreement**”). Capitalised words and expressions used but not defined herein have the meanings given to them in the Agreement.
2. By a Drawdown Request Letter dated [●], the Borrower has requested that the Lender makes available a Drawdown in the amount of EUR [●], pursuant to the terms and conditions of the Agreement.
3. The Drawdown which has been made available according to your Drawdown Request is as follows:
   * Amount: Euros [●*amount in words*] (EUR [●])
   * Applicable interest rate: [●*percentage in words*] ([●]%) per annum [equal to the aggregate of the six-month EURIBOR (equal to [●]% per annum) [[18]](#footnote-18) and the Margin] [[19]](#footnote-19)
   * Drawdown Date: [●]

For fixed-Interest Rate loans only

For information purposes only:

* + Rate Setting Date: [●]
  + Fixed Reference Rate: [●*percentage in words*] ([●]%) per annum
  + Effective global rate (per annum): [●*percentage in words*] ([●]%)
  + Index Rate: [●*percentage in words*] ([●]%) per annum
  + Index Rate on Rate Setting Date: [●*percentage in words*] ([●]%) per annum

[It being specified that the above Interest Rate may vary in accordance with the provisions of clauses 4.1.3(i) (*Floating Interest Rate*)and 5.2 (*Replacement of a Screen Rate*) of the Agreement.] [[20]](#footnote-20)

Yours sincerely,

Authorised signatory of *Agence Française de Développement*

Schedule 5C - Form of Rate Conversion Request

*[on the Borrower’s letterhead]*

To: AGENCE FRANÇAISE DE DÉVELOPPEMENT

On: [*date*]

**Borrower’s Name – Credit Facility Agreement n**°**[●] dated [●]**

**Rate Conversion Request n°[●]**

Dear Sirs,

1. We refer to the Credit Facility Agreement n°[●] entered into between the Borrower and the Lender dated [●] (the “**Agreement**”). Capitalised words and expressions used but not defined herein have the meanings given to them in the Agreement.
2. Pursuant to Clause 4.1.3 (*Conversion from a floating Interest Rate to a fixed Interest Rate*) of the Agreement, we hereby request that you convert the floating Interest Rate of the Drawdown under the Facility into a fixed Interest Rate in accordance with the terms of the Agreement.
3. This rate conversion request will be deemed null and void if the applicable fixed Interest Rate exceeds [●*percentage in words*] [●%].

Yours sincerely,

Authorised signatory of Borrower

Schedule 5D - Form of Rate Conversion Confirmation

*[on Agence Française de Développement letterhead]*

To: [*the* *Borrower*]

Date: [●]

Re: Rate Conversion Request n° [●] dated [●]

**Borrower’s Name – Credit Facility Agreement n**°**[●] dated [●]**

**Rate Conversion Confirmation n°[●]**

Dear Sirs,

**SUBJECT:** Conversion from a floating Interest Rate to a fixed Interest Rate

1. We refer to the Credit Facility Agreement n°[●] entered into between the Borrower and the Lender dated [●] (the “**Agreement**”). Capitalised words and expressions used but not defined herein have the meanings given to them in the Agreement.
2. We refer also to your Rate Conversion Request dated [●]. We confirm that the fixed Interest Rate applicable to the Drawdown(s) referred to in your Rate Conversion Request delivered in accordance with Clause 4.1.3 (*Conversion from a floating Interest Rate to a fixed Interest Rate*) of the Agreement is:
   * [●]% per annum.
3. This fixed Interest Rate, calculated in accordance with Clause 4.1.1 (*Selection of Interest Rate*) will apply to the Drawdown(s) referred in your Rate Conversion Request from [⚫] (effective date).
4. Further, we notify you that the effective global rate per annum of the Facility is [⚫]%.

Yours sincerely,

Authorised representative of *Agence Française de Développement*

Schedule 6 - Information that may be published on the French Government Website and the Lender’s Website

1. Information regarding the Program

* Number and name in AFD’s book;
* Description;
* Operating sector ;
* Place of implementation ;
* Expected starting date ;
* Expected Program Completion Date;
* Status of implementation updated on a semi-annual basis ;

1. Information regarding the support provided for the Program

* Kind of support (loan, grant, co-financing, delegated funds) ;
* Principal amount of the Facility ;
* Amount of the Facility which has been drawn down ;

1. Other information

* Transaction information notice and/or sheet presenting the transaction attached to this Schedule.

SCHEDULE 7 - non-exhauStive LIST OF ENVIRONMENTAL AND SOCIAL documents which THE BORROWER permits to be DISCLOSed IN CONNECTION WITH ES GRIEVANCE MANAGEMENT PROCEDURES

* E&S Scoping Report
* Environmental and Social Impact Assessment (ESIA)
* Environmental and Social Management Plan (ESMP)
* Environmental and Social Management Framework  (ESMF)
* Resettlement Action Plan (RAP)
* Resettlement Policy Framework (RPF)
* Strategic Environmental Impact Assessment of the Low Carbon Development Strategy, January 2020
* Monitoring Chart (schedule 3B) including environmental and social engagement
* Limited environmental and social assessment
* Limited environmental and social action plan
* Chapters from the environmental and social monitoring reports

SCHEDULE 8 – COMMUNICATION NOTE OF THE Program

|  |  |
| --- | --- |
| Borrower | The Republic of Serbia |
| Line Ministry | Ministry of Environmental Protection |
| Associated entities (Steering Committee) | All relevant institutions of the Borrower |
| Financing Data | Amount of the loan: €50 million.  Amount of the technical assistance grant: €500,000. |
| Operation Type | Public Policy Loan (PPL), i.e. AFD equivalent to the World Bank Development Policy Loan (DPL) instrument |
| Pillar of the Operation and Program Development Objective(s) | This is a parallel financing to the Public Sector Efficiency and Green Recovery Development Policy Loan, to be mobilized by the World Bank (DPL P164575). It supports the Government of Serbia’s green recovery agenda (Pillar II) in addition to the primary actions developed with the World Bank. Additional actions are compliant with the accession process of Serbia to EU (Chapter 27) and incorporate the preparation of a policy framework to stimulate the contribution of the Local Government Units to the Environment and Climate Change national agenda. |
| Prior Action (One trigger for single disbursement) | The Borrower has enacted the Law on Climate Change (published in the Borrower’s Official Gazette No. 26/2021 on March 23 2021 and entered into force on March 31 2021) which mandates the preparation and adoption of the Low-Carbon Development Strategy and its Action Plan and the Climate Change Adaptation Program, to establish systems to reduce GHG emissions and support climate adaptation in a cost-effective and economically viable manner |
| Proposed Result indicators | **Result Indicator #1** The National Climate Change Council (NCCC) is re-established and operational.  **Result Indicator #2** (shared with the WB DPL’s matrix): Relevant by-laws accompanying Law on climate change are drafted and adopted.  **Result Indicator #3**: Public policy documents are approved and/or harmonized with the Law on Climate Change.  **Result Indicator #4**: A feasibility study is carried out to identify financing scheme options for local self-government units climate investments |

*Overview of Climate Change challenges in Serbia*

**The energy sector remains the biggest source of GHG emissions in Serbia**. Combustion of fossil fuels, in particular, are responsible for nearly 80% of GHG emissions. **Serbia is also highly vulnerable to climate change.** The vulnerability is accelerated by economic and social challenges that Serbian society is facing – the aging population, old and unfunctional infrastructure, lack of financial resources and organization ability to cope with climate change.

**Key sectors concerned by climate change mitigation and adaptation within the urban context** **in Serbia** are district heating systems, mostly dependent on fossil fuel, that generate the most negative impact on GHG, and urban transportation. Air quality, flood protection, water (shortage and quality), and wastewater management are urban issues that are the most exposed to climate change. All the above-mentioned sectors rely heavily on cities and municipalities and their Public Utility Companies (PUCs) initiatives, while the cost of investment is generally over the financial capacity of the Local Government Units (LGUs) to assume alone those investments.

**The building of a legal framework for Climate Change action is underway**. The Law on Climate Change has been adopted by the GoS on February 25,2021 and by the Parliament on March 18, 2021. It entered into force on March 31, 2021. The Law on Climate Change provides the establishment of a system for the GHG emission reduction and efficient adaptation to climate change, fulfilling the obligations to the international community (more precisely to the UNFCCC and the Paris Agreement as the main references) and is in line with Serbia's roadmap accession to the EU. In addition, the Law on Climate Change aims to ensure a legal basis for the adoption of a Low-Carbon Development Strategy and a Program of adaptation to identify the effects of climate change on sectors and systems, and to determine the adaptation measures to the changed climate conditions, thus setting a system for adoption of policies and measures for GHG emission reduction and adaptation to climate change.

However, **a comprehensive national framework for climate change adaptation is still to be developed**. Dedicated actions for reducing vulnerabilities are still sporadic. To date, adaptation has occurred mainly ad-hoc, on a project basis. The majority of sectorial strategic and regulatory documents adopted during the previous two decades contain only indirect and fragmentary references that relate to climate change adaptation**.** Climate change related policy making, legislation and implementation responsibility is split to a number of sectorial ministries, with the Ministry of Environmental Protection as the key institution. The capacity of most ministries and local governments to integrate adaptation into policies and strategies needs to be strengthened.

The government’s roadmap is strategically oriented **toward accelerating the EU integration process,** since the adoption of a negotiation position by the government in January 2020 and its submission to the European Commission, particularly Chapter 27 discussions on Environment and Climate Change.

*Brief description of the Cities and Climate Change program in Serbia*

The proposed Cities and Climate Change program in Serbia is a **Public Policy Loan (PPL)** implemented as a parallel financing of the Public Sector Efficiency and Green Recovery DPL of the World Bank (P164575). Its amount is €50.5 Million comprising a €50 million loan and a 500K€ grant from AFD dedicated to Technical Assistance.

The program is based on **one prior action** (the Law on Climate Change enters into force) and **four expected results**, to be achieved by application of the law over the implementation period of the program : **(i) the NCCC is re-established and operational, (ii) Relevant by-laws accompanying Law on climate change are drafted and adopted (iii) Public policy documents are approved and/or harmonized with the Law on Climate Change (iv) A feasibility study is carried out to identify financing scheme options for local self-government unit's climate investments**. Rationale of the program matrix is built on the links between Prior action and Result Indicators.

**By choosing the entry into force of the Law on Climate Change as the prior action of the matrix, this program directly echoes the renewed desire of the GoS to converge on the European Community acquis** and to initiate a virtuous energy and ecological transition that is compatible with economic growth and supporting employment (diversification of the economic model, strengthening of the region's economic attractiveness). The program has **a structuring contribution to Serbia's low-carbon trajectory** through its action to unlock the adoption and implementation of the Law on Climate Change, a prerequisite for all the resulting change levers to be effective: mobilization of public actors, monitoring of GHG emissions and preparation of reports, alignment of sector strategies with the objectives of the Low Carbon Development Strategy (energy sectors but also potentially waste), mobilization of climate finance, etc.

The program matrix covers both mitigation and adaptation challenges to climate change, through the **adoption of the climate change adaptation program and the provision of measures for the urban sector**. By contributing to the integration of climate vulnerability assessment and adaptation measures into the revision of the National Sustainable Urban Development Strategy and by supporting **the identification of priority needs and projects (adaptation and / or mitigation action plan) in 2 pilot cities/municipalities,** the program will contribute to strengthen urban resilience, in particular in terms of Disaster Risk Reduction. It will contribute to improve quality of environment and a rational use of natural resources at local level, in particular through nature-based solutions (reduction of pollution, development of green spaces in urban areas). By carrying out a feasibility study on municipal finance, the program will identify several financing options to increase Self Local Government Unit climate investments and therefore support the **development of an institutional and financial framework for investments by local authorities**

Several measures proposed under the program should help improve climate change (mitigation and adaptation) governance in Serbia, by formalizing a legislative framework, promoting the exchange of information and the coordination between public institutions, supporting **the operationalization of the NCCC** and **strengthening the capacities of** stakeholders in terms climate change planning, implementation as well as environmental and social aspects. In addition, by assessing financial mechanism for local self-governments, the program should promote their access to financial resources to facilitate climate investments.

The program will also contribute to better **gender equality** through the composition of the NCCC and the capacity building plan for the main ministries involved (gender approach). Likewise, at the level of the pilot cities/municipalities, vulnerability assessments (if needed), awareness campaigns on climate change and training will be conducted using a gender approach. The achievement of the program's results indicators will be a condition for a new AFD’s PPL focusing on urban climate and environmental issues. The rationale of this potential second PPL would be to contribute to regular financing and monitoring of Serbian cities/municipalities climate mitigation and adaptation action plan, with an enhanced focus on urban sector and municipal level.

1. UNDP - Climate changes observed in Serbia and future climate projections based on different scenarios of future emissions. Dr Vladimir Đurđević, Dr Ana Vuković, Dr Mirjam Vujadinović Mandić (2018) [↑](#footnote-ref-1)
2. Projections indicate further reduction of flows on all rivers in Serbia, amounting to -8% by the mid-century and up to -17% by the end of the century, compared to the reference period 1971-2000. The biggest reduction in river flows is expected in central and eastern Serbia, and the least on the Sava and the Danube rivers. The groundwater recharge is expected to reduce across the whole territory of Serbia on the average by -10% by the mid-century and by up to -50% by the end of the century, compared to the reference period 1951-2010. This reduction will more strongly affect groundwater in the east and southeast of the country. [↑](#footnote-ref-2)
3. While during the 2014 floods, 24 mainly rural municipalities were affected, and 57% of the infrastructure and 43% of the productive capacity in those locales was damaged, with losses estimated at 1.5 billion USD. The social impact of this event was especially damaging due to the cascading impacts it created in the national service and productive value chains. Mining, energy production and energy distribution were also severely affected by these extreme events, and direct damages were estimated at 494 million EUR. Urban infrastructures also suffered from severe damage caused by flash floods of high intensity that destroyed houses, bridges and sections of roads in Krupanj and areas near Sabac. The rising water levels also resulted in widespread urban flooding, industrial and sewage spills, and widespread landslides that further damaged housing and infrastructure assets. Damages to housing and urban infrastructure from this event are estimated at 398 million EUR, while damages to agriculture and trade are estimated at 453 million EUR. [↑](#footnote-ref-3)
4. with an installed capacity of around 7.8 GW for 7 million inhabitants, the Serbian electricity mix in 2019 is still largely made up of lignite-based thermal power stations (73%). [↑](#footnote-ref-4)
5. Source: EDGAR - FAO [↑](#footnote-ref-5)
6. “Creation of a monitoring, reporting and verification system for the successful implementation of the EU Emissions Trading System” (2013-2015) and “Establishment of a mechanism for implementation of MMR” (2015 - 2017). [↑](#footnote-ref-6)
7. The National Sustainable Development Strategy, the National Environmental Protection Programme and the National Strategy for Sustainable Use of Natural Resources and Good recognize the significance of climate change adaptation for the preservation and sustainable use of natural resources, primarily in forestry, maintaining the quality of land, water, and air, as well as preserving biodiversity. The Biodiversity Strategy for the period 2011-2018 with the Action Plan identified adaptation to climate change as one of its objectives and defined priority measures for increasing institutional capacities, awareness raising, and development of national strategy in order to achieve better understanding, planning and minimizing the risks of climate change impacts. Climate change is included in the Public Health Strategy of the Republic of Serbia 2018-2026 through the specific objective to improve the environment, adaptation measures and response to climate change – development of action plans for response to climate change in urban areas. [↑](#footnote-ref-7)
8. The Strategy of Agriculture and Rural Development for the period 2014-2024 identified climate change adaptation and mitigation as one of the priority areas of strategic planning. Although explicit adaptation measures are not recommended by this strategy, there is a number of defined measures for sustainable management of natural resources, the improvement of technologies, techniques and resources, the improvement of the knowledge and technology transfer systems and the improvement of the natural disaster insurance system, which all contribute to the climate change adaptation. The Water Management Strategy for the territory of the Republic of Serbia until 2034 identifies climate change as an important factor in long-term planning in the area of water use and flood and drought protection. [↑](#footnote-ref-8)
9. New Action Plan for disaster risk management for the upcoming period is still expected. [↑](#footnote-ref-9)
10. Official Gazette RS, No. 86/2011 [↑](#footnote-ref-10)
11. Official Gazette RS, No. 87/2018 [↑](#footnote-ref-11)
12. The methodology is also prescribed to conduct vulnerability assessments in case of natural disasters and other accidents and protection and rescue plans in emergencies. The first Preliminary Flood Risk Assessment for Serbia was developed in 2011, based on available data (hydrological, land use, topography, etc.) and data on damages caused by floods in the past. Although the Law on Waters foresees that risk management plans are adopted by 2017, their preparation is delayed, mainly due to the lack of financial resources and capacities. The hazard maps and flood risk maps, which are the basis for the development of these plans, are currently under the development within the project "Study of mapping of flood zones in Serbia", funded by the European Union. [↑](#footnote-ref-12)
13. htttp://prezentacije.mup.gov.rs/sektorzazastituispasavanje/HTML/licence/Procena%20rizika%20 od%20katastrofa%20u%20RS.pdf [↑](#footnote-ref-13)
14. Part of the CBIT project implemented by the MEP with the support of UNDP. The project incorporates development of a domestic MRV system for updating NDCs and improvement of the National GHG inventories. [↑](#footnote-ref-14)
15. Estimates implementation cost: “(Baseline Scenario): € 6,511 million - the assistance of the international community is expected in part and for conditional target: € 19,239 million compared to the Baseline Scenario (fulfillment is possible only with financial, technical and capacity building assistance from the international community”.) [↑](#footnote-ref-15)
16. Biennial Update Report submissions from Non-Annex I Parties. [↑](#footnote-ref-16)
17. Source: PNUD adaptation program brief policy note. [↑](#footnote-ref-17)
18. [↑](#footnote-ref-18)
19. [↑](#footnote-ref-19)
20. Will be deleted in case of fixed Interest Rate. [↑](#footnote-ref-20)