(Operation Number 53021)

**LOAN AGREEMENT**

**RENEWABLE DISTRICT ENERGY IN SERBIA**

between

**THE REPUBLIC OF SERBIA**

and

**EUROPEAN BANK**

**FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 9 July 2024

TABLE OF CONTENTS

ARTICLE I - STANDARD TERMS AND CONDITIONS; DEFINITIONS 2

Section 1.01. Incorporation of Standard Terms and Conditions 2

Section 1.02. Definitions 2

Section 1.03. Interpretation 3

ARTICLE II - PRINCIPAL TERMS OF THE LOAN 3

Section 2.01. Amount and Currency 3

Section 2.02. Other Financial Terms of the Loan 3

Section 2.03. Drawdowns 4

ARTICLE III - EXECUTION OF THE PROJECT 4

Section 3.01. Other Affirmative Project Covenants 4

Section 3.02. Central Project Implementation Unit 5

Section 3.03. Consultants 5

ARTICLE IV - SUSPENSION; ACCELERATION; CANCELLATION 5

Section 4.01. Suspension 5

ARTICLE V - EFFECTIVENESS 6

Section 5.01. Conditions Precedent to Effectiveness 6

Section 5.02. Conditions Precedent to First Drawdown 6

Section 5.03. Legal Opinions 7

Section 5.04. Termination for Failure to Become Effective 7

ARTICLE VI - MISCELLANEOUS 7

Section 6.01. Notices 7

SCHEDULE 1 - DESCRIPTION OF THE PROJECT S1-1

SCHEDULE 2 - CATEGORIES AND DRAWDOWNS S2-1

LOAN AGREEMENT

**AGREEMENT** dated 9 July\_ 2024 between **THE REPUBLIC OF SERBIA** represented by Mr. Siniša Mali, Minister of Finance of the Republic of Serbia (the "**Borrower**") and **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT** (the "**Bank**").

**PREAMBLE**

**WHEREAS,** the Bank has been established to provide financing for specific projects to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in certain countries committed to and applying the principles of multiparty democracy, pluralism and market economics;

**WHEREAS,** the Borrower intends to implement the Project, described in Schedule 1, which will finance investments in renewable heat generation in several District Heating Companies ("**DHCs**") located in small and medium cities in Serbia and in municipality Paracin in the territory of the Borrower (the "**Municipality** " and together with the DHCs, each a "**Project Entity**" and together "**Project Entities**");

**WHEREAS,** the Project will be carried out by the Borrower, acting through the Ministry of Mining and Energy (the "**MoME**"), DHCs JP Toplana Bečej, JKP Bogatić, "Energetika" doo Kragujevac, JEP "Toplana" Kraljevo, JKP "Gradska toplana" Kruševac, JKP "Gradska toplana" Niš, JKP "Gradska toplana" Novi Pazar, JKP, "Grejanje" Pančevo, JKP, " Drugi oktobar" Vršac and the Municipality, each acting as a Project Entity;

**WHEREAS**, the Borrower, acting through the MoME, intends to enter into agreements with 9 municipalities in the territory of the Borrower and each of their DHCs (each a "**Trilateral Agreement**" and together "**Trilateral Agreements**") and the Municipality (the "**Bilateral Agreement**" and together with the Trilateral Agreements, the "**Agreements**");

**WHEREAS,** the Borrower has requested assistance from the Bank in financing part of the Project;

**WHEREAS,** the Bank is in the process of arranging technical cooperation funds on a grant basis to assist the Project Entities with appraisal and implementation of the Project as follows: (i) EUR 74,960 for a rapid assessment study; (ii) up to EUR 60,000 for Project preparation support; (iii) up to EUR 1,000,000 for technical, financial, environmental and social due diligence; (iv) up to EUR 3,000,000 for Project implementation and supervision support; and (v) up to EUR 400,000 for a policy dialog support;

**WHEREAS,** the Bank is in the process of arranging investment grant funding of up to EUR 7,500,000 (the "**Investment Grants**") from (i) the Swiss State Secretariat for Economic Affairs ("**SECO**") subject to the terms and conditions [to be] set forth in an agreement (the "**SECO** **Grant Agreement**") between the Bank and the Borrower, and (ii) the European Union (the "**EU**") under the Regional Energy Efficiency Programme ("**REEP**"), subject to the terms and conditions [to be] set forth in an agreement (the "**REEP** **Grant Agreement**") between the Bank and the Borrower; and

**WHEREAS,** the Bank has agreed on the basis of, *inter alia*, the foregoing to make a loan to the Borrower in the amount of up to EUR 30,000,000 (thirty million Euros) subject to the terms and conditions set forth or referred to in this Agreement and in the project agreement dated the date hereof between the Borrower (represented by MoME) and the Bank (the "**Project Agreement**" as defined in the Standard Terms and Conditions).

**NOW, THEREFORE,** the parties hereby agree as follows:

# ARTICLE I - STANDARD TERMS AND CONDITIONS; DEFINITIONS

## Section 1.01. Incorporation of Standard Terms and Conditions

All of the provisions of the Bank's Standard Terms and Conditions dated 5 November 2021 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein.

## Section 1.02. Definitions

Wherever used in this Agreement (including the Preamble and Schedules), unless stated otherwise or the context otherwise requires, the terms defined in the Preamble have the respective meanings given to them therein, the terms defined in the Standard Terms and Conditions have the respective meanings given to them therein and the following terms have the following meanings:

"Borrower's Authorised

Representative" means the Minister of Finance of the Borrower.

"Designated Performance

Requirements" means Performance Requirements 1 through 8 and 10 (or, as the context may require, any one of such Performance Requirements) of the Performance Requirements dated April 2019 and related to the Bank’s Environmental and Social Policy dated April 2019.

"Environmental and Social

Action Plan(s)" means the plan(s) of environmental and social mitigation and improvement measures specifying environmental and social performance criteria, standards, policies, procedures, practices, capital investments and implementation schedules, including measures to maintain compliance with the Designated Performance Requirements agreed between the Bank and the Borrower (acting through the MoME). Once agreed between the Bank and the Borrower (acting through the MoME), such plan may be amended from time to time only with the prior written consent of the Bank.

"Fiscal Year" means the Borrower's fiscal year commencing on 1 January of each year.

"Sub-project" means investment of the proceeds of the Loan and the Investment Grants in each of the Project Entities in order to implement the Project in accordance with the Project Agreement.

## Section 1.03. Interpretation

In this Agreement, a reference to a specified Article, Section or Schedule shall, except where stated otherwise in this Agreement, be construed as a reference to that specified Article or Section of, or Schedule to, this Agreement.

# ARTICLE II - PRINCIPAL TERMS OF THE LOAN

## Section 2.01. Amount and Currency

The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of up to EUR 30,000,000 (thirty million Euros).

## Section 2.02. Other Financial Terms of the Loan

(a) The Minimum Drawdown Amount shall be EUR 200,000.

(b) The maximum number of Drawdowns shall be limited to 30.

(c) The Minimum Prepayment Amount shall be EUR 1,000,000.

(d) The Minimum Cancellation Amount shall be EUR 1,000,000.

(e) The Interest Payment Dates shall be 15 May and 15 November of each year.

(f) (1) The Borrower shall repay the Loan in 25 equal (or as nearly equal as possible) semi-annual instalments on 15 June and 15 December of each year, with the first Loan Repayment Date being 15 June 2027 and the last Loan Repayment Date being 15 June 2039.

(2) Notwithstanding the foregoing, in the event that (i) the Borrower does not draw down the entire Loan amount prior to the first Loan Repayment Date specified in this Section 2.02.(f), and (ii) the Bank extends the Last Availability Date specified in Section 2.02.(g) below to a date which falls after such first Loan Repayment Date, then the amount of each drawdown made on or after the first Loan Repayment Date shall be allocated for repayment in equal amounts to the several Loan Repayment Dates which fall after the date of such drawdown (with the Bank adjusting the amounts so allocated as necessary so as to achieve whole numbers in each case). The Bank shall, from time to time, notify the Borrower of such allocations.

(g) The Last Availability Date shall be the third anniversary from the date of this Agreement, or such later date that the Bank may in its discretion establish and notify to the Borrower. If the Available Amount, or any part thereof, is subject to a Fixed Interest Rate, and the Bank postpones the Last Availability Date, the Borrower shall promptly pay to the Bank such amount of Unwinding Costs as shall, from time to time, be notified by the Bank in writing to the Borrower.

(h) The rate of the Commitment Charge shall be 0.5% per annum.

(i) The Loan is subject to a Variable Interest Rate. Notwithstanding the foregoing, the Borrower may, as an alternative to paying interest at a Variable Interest Rate on all or any portion of the Loan then outstanding, elect to pay interest at a Fixed Interest Rate on such portion of the Loan in accordance with Section 3.04(c) of the Standard Terms and Conditions.

## Section 2.03. Drawdowns

The Available Amount may be drawn down from time to time in accordance with the provisions of Schedule 2 to finance (1) expenditures made (or, if the Bank so agrees, to be made) in respect of the reasonable cost of goods, works and services required for the Project, and (2) the Front-end Commission.

# ARTICLE III - EXECUTION OF THE PROJECT

## Section 3.01. Other Affirmative Project Covenants

In addition to the general undertakings set forth in Articles IV and V of the Standard Terms and Conditions, the Borrower shall, unless the Bank otherwise agrees:

(a) acting through the MoME, cause all goods, works and services financed out of the proceeds of the Loan to be used exclusively for the purposes of the Project;

(b) acting through the MoME, delegate to the Project Entities the day-to-day management of the Project;

(c) acting through the MoME, perform all of its obligations under the Project Agreement;

(d) acting through the MoME, ensure that the Project Entities implement the Project in accordance with the Project Agreement;

(e) acting through the MoME, provide or cause to be provided, when requested, all governmental licenses, approvals or consents required by the Project Entities for the Project, and for carrying out their businesses, including all approvals and licenses necessary to ensure that the Project Entities are granted rights of way and other land use rights necessary for carrying out the Project;

(f) exempt from VAT and custom duties, all goods, works and services (including consultancy services) as applicable, procured by the Borrower (acting through the MoME) and/or the Project Entities, for the Project and financed from the proceeds of the Loan or any technical cooperation funds made available by the Bank, or provide for their reimbursement;

(g) acting through the MoME, take all actions necessary to provide adequate funds for the completion of the Project, including the contributions of Project Entities if required or reduction of Project scope;

(h) acting through the MoME, ensure satisfactory implementation of the Environmental Social Action Plan(s) and compliance with the Designated Performance Requirements by the Project Entities; and

(i) acting through the MoME, ensure that the Project Entities, have the ownership title to the respective assets to be financed from the proceeds of the Loan and Investment Grants.

## Section 3.02. Central Project Implementation Unit

In order to coordinate, manage, monitor and evaluate all aspects of the implementation of the Project, including the financial management and monitoring of the Project, the procurement of goods, works and services as well as consultancy services for the Project and the communication with the participating Project Entities, the municipalities and between all involved institutions and stakeholders, the Borrower (acting through the MoME) shall, unless otherwise agreed with the Bank, establish and at all times during execution of the Project operate a central project implementation unit with adequate resources and suitably qualified personnel, under terms of reference acceptable to the Bank.

## Section 3.03. Consultants

The Borrower (acting through the MoME) shall ensure appointment of suitably qualified consultants under terms of reference acceptable to the Bank to assist the central project implementation unit with the project implementation support, design and studies, procurement and supervision of works, and technical assistance, as applicable.

# ARTICLE IV - SUSPENSION; ACCELERATION; CANCELLATION

## Section 4.01. Suspension

The following are specified for purposes of Section 7.01(a)(xvii) of the Standard Terms and Conditions:

(a) the legislative and regulatory framework applicable to the district heating sector in the territory of the Borrower shall have been amended, suspended, abrogated, repealed or waived in a manner other than as approved by the Bank in writing;

(b) the Statutes shall have been amended, suspended, abrogated, repealed or waived in a manner other than as approved by the Bank in writing; or

(c) Control of any of the Project Entities shall have been transferred to a party other than the Borrower, unless the Bank has given its prior written approval to such transfer.

# ARTICLE V - EFFECTIVENESS

## Section 5.01. Conditions Precedent to Effectiveness

The following are specified for purposes of Section 9.02(c) of the Standard Terms and Conditions as additional conditions to the effectiveness of this Agreement and the Project Agreement:

(a) ratification of this Agreement by the Parliament of the Republic of Serbia and publication of such ratification in the Official Gazette of the Republic of Serbia;

(b) the Project Agreement, in form and substance satisfactory to the Bank, has been executed and delivered and all conditions precedents to its effectiveness have been fulfilled; and

(c) each of the opinions specified in Section 5.03.(a) and Section 5.03.(b) of this Agreement has been delivered to the Bank in a form and substance satisfactory to the Bank.

## Section 5.02. Conditions Precedent to First Drawdown

The following are specified as additional conditions to the first Drawdown under this Agreement:

(a) the central project implementation unit has been established by the Borrower, acting through the MoME, with adequate resources and suitably qualified personnel, in form and substance satisfactory to the Bank, and is operational;

(b) the SECO Grant Agreement and REEP Grant Agreement have been executed and delivered and all conditions precedent to their effectiveness or to the right of the Borrower to make drawings thereunder, have been fulfilled;

(c) the Agreements have been executed and delivered in form and substance satisfactory to the bank;

(d) appointment of an independent engineer by the Borrower, acting through the MoME, to supervise construction works of the Project, in form and substance satisfactory to the Bank;

(e) the opinion specified in Section 5.03.(c) of this Agreement has been delivered to the Bank in a form and substance satisfactory to the Bank; and

(f) the Bank shall have received, in form and substance satisfactory to the Bank, any other conditions precedent the Bank may, at its sole discretion, reasonably require.

## Section 5.03. Legal Opinions

(a) For purposes of Section 9.03(a) of the Standard Terms and Conditions, in form and substance acceptable to the Bank, the opinion or opinions of counsel shall be given on behalf of the Borrower by the Ministry of Justice confirming that this Agreement has been duly authorised or ratified by, and delivered on behalf of, the Borrower and constitutes the valid and legally binding obligation of the Borrower, enforceable in accordance with its terms.

(b) For purposes of Section 9.03(c) of the Standard Terms and Conditions, in form and substance acceptable to the Bank, the opinion or opinions of counsel shall be given on behalf of the Borrower (acting through the MoME) by the Ministry of Justice confirming that the Project Agreement has been duly authorised or ratified by, and delivered on behalf of, the Borrower (acting through the MoME) and constitutes the valid and legally binding obligation of the Borrower (acting through the MoME), enforceable in accordance with its terms.

(c) For purposes of Section 5.02.(e) hereof, in form and substance acceptable to the Bank, the opinion or opinions of counsel shall be given by the State Attorney’s Office (*Državno pravobranilaštvo Republike Srbije*) on behalf of the Borrower (acting through the MoME), and on behalf of each of the Project Entities in respect of the Agreement to which the respective Project Entity is a party, confirming that each of the Agreements has been duly authorised, and delivered on behalf of, the Borrower (acting through the MoME) and the respective Project Entity and constitutes valid and legally binding obligations of the Borrower (acting through the MoME) and that Project Entity, enforceable in accordance with their terms.

## Section 5.04. Termination for Failure to Become Effective

The date 180 days after the date of this Agreement is specified for purposes of Section 9.04 of the Standard Terms and Conditions.

# ARTICLE VI - MISCELLANEOUS

## Section 6.01. Notices

(a) The following addresses are specified for purposes of Section 10.01 of the Standard Terms and Conditions, except that any notice shall be deemed to be delivered if by hand, mail, or in pdf or similar format by electronic mail:

For the Borrower:

The Republic of Serbia

The Ministry of Finance

Kneza Milosa 20

11000, Belgrade

Attention: Minister of Finance

Telephone: +381 11 765 2012

Email: kabinet@mfin.gov.rs

For EBRD:

European Bank for Reconstruction and Development

5 Bank Street

London E14 4BG

United Kingdom

Attention: Banking Services / Operation No. 53021

Telephone: +44 20 7338 6000

Email: [bankingservices@ebrd.com](mailto:bankingservices@ebrd.com)

**IN WITNESS WHEREOF,** the parties hereto, acting through their duly authorised representatives, have caused this Agreement to be signed in six copies and delivered at Belgrade, Republic of Serbia as of the day and year first above written.

**THE REPUBLIC OF SERBIA**

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: SINIŠA MALI

Title: MINISTER OF FINANCE

**EUROPEAN BANK**

**FOR RECONSTRUCTION AND DEVELOPMENT**

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: ODILE RENAUD-BASSO

Title: PRESIDENT

SCHEDULE 1 - DESCRIPTION OF THE PROJECT

1. The purpose of the Project is to assist the Borrower in investments in renewable district energy by supporting integration of solar-thermal, heat pump, waste heat and geothermal technologies as well as complementary measures (replacement and/or extension of networks, upgrade, replacement and/or installation of substations) in existing district heating systems in several small and medium municipalities in Serbia, including: Niš, Kragujevac, Bečej, Pančevo, Vršac, Kruševac, Bogatić, Kraljevo, Novi Pazar and Paraćin.

2. The Sub-projects were assessed and selected through the Renewable District Energy in the Western Balkans Programme ("ReDEWeB") established by EBRD in 2019. ReDEWeB was set up in partnership with the Government of Austria to incentivise reforms and create an enabling environment for financing Renewable District Energy investments in the Western Balkans.

The Project is expected to be co-financed by investment and technical assistance grants from the SECO and the EU under the REEP.

3. The Project is expected to be completed by mid-2027.

SCHEDULE 2 - CATEGORIES AND DRAWDOWNS

1. The table below sets forth the Categories, the amount of the Loan allocated to each Category and the percentage of expenditures to be financed in each Category.

2. For the avoidance of doubt, no Drawdown shall be made until and unless this Agreement has become effective.

3. Notwithstanding the provisions of paragraph 1 above, no Drawdown shall be made in respect of expenditures incurred prior to the date of this Agreement.

4. The Bank shall be entitled to draw down on behalf of the Borrower and pay to itself, as and when due, the Front-end Commission.

|  |  |  |
| --- | --- | --- |
| **Category** | **Amount of the Loan (EUR)** | **% of Expenditures to be financed** |
| Capex (Capital expenditure (investment)) in each of the Sub-projects) | 29,700,000 | 100%  (excluding VAT and custom duties ) |
| Front-end Commission | 300,000 | 100% |